

# AN EVALUATION FRAMEWORK FOR MOVING TOWARDS MORE COST- EFFECTIVE HOUSING POLICIES

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RESEARCH INSTITUTE FOR WORK AND SOCIETY

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# Preface

This discussion paper is the result of an EC-project on cost-effective housing policies. The main question to be addressed is which policy instruments will respond cost-effectively to housing needs, especially those of vulnerable households. This project consists of two main parts: developing a framework and testing the framework with the housing policy stakeholders.

The first part entailed the development of a conceptual framework for the comparison of policy instruments addressing housing needs in order to facilitate the *ex ante* evaluation about the cost-effectiveness of an instrument. Cost-effectiveness was for this goal considered in a broad, social-relevant sense to entail more value for society given the housing policy budget. The development of the conceptual framework, which has the aim to be applicable for any policy formulation process in different (national) contexts, was based on theoretical and empirical literature and focused on the goal of improving housing affordability.

The second part of the project involved the discussion of the framework with academics, policy makers and stakeholders. In order for the framework to be useful in practice, this consultation phase led to adjustments of the framework in order to fine-tune it to the feedback of a broad range of stakeholders.



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# Introduction

In many European countries housing policies seem to be coping ineffectively with quality, access or affordability problems as shown by the persistencies and even increases in homelessness (Busch-Geertsema *et al.*, 2014) and affordability problems (Eurostat, 2014; Foundation Abbé Pierre & FEANTSA, 2015) and the persistent lack of basic amenities in some countries (Pittini *et al.*, 2015). At the same time budgets are getting tighter, putting pressure on the welfare systems to apply policy instruments along the criterion of proven (cost-) effectiveness under certain circumstances.

Our aim is to develop a framework that can be used in different contexts by governments, policy advisors and stakeholders to evaluate the choice of policy instruments given the housing policy objectives and scarce availability of resources. Following the example of Baarsma & Janssen (2007) for the Netherlands, who developed an instrument for guiding the selection of public policy instruments, we aim to develop such a framework specifically for housing policy. The framework aims to allow policy makers to develop instruments that help to make housing affordable, that help to provide suitable housing and that help to provide housing for those who are homeless.

The framework that is developed in this study and that aims to help guide policy instrument development is based both on theoretical and empirical literature. This choice has been made from the point of view that even if theory can guide the choice of instruments, countries are not able to start from a tabula rasa. Instead, policy usually is path dependent. History (including the welfare regime), specific circumstances and existing policy systems will have to be taken into account, when formulating new policy options. Therefore, we will add information from the empirical literature to show whether empirical results confirm or contradict the theoretical findings. Empirical literature on cost-effectiveness shows that it is rather hard to draw conclusions based on cost-effectiveness in terms of the true quantitative cost in relation to the benefits, due to limitations in data availability and difficulties with determining all potentially long-term benefits and costs of applying a certain policy instrument. What is clear from both theoretical and empirical literature is that the objectives that are selected and the particularities or circumstances of each situation matter in the choice of instruments.

Even though our aim is to provide guidance to the choice and design of housing policy instruments, which are based on theory, empirical research, academic<sup>1</sup> and stakeholder input, our exercise will not lead to a framework offering a unique outcome with a determined package of policy instruments. Based on the specifics of each situation (history, politics, existing housing system), the framework aims to offer guidance in how to determine a set of possible instruments given the importance of policy objectives. As such it aims to make the choice process more transparent to those involved and to those affected by the policies. The combination of more systematic decision making with transparency in the process aims to stimulate decision making that is based on broadly accepted and cost-effective instrument choices.

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<sup>1</sup> The first version of the framework which was discussed at the academic workshop was adapted to include the conclusions from this workshop; see report and conclusions of the academic workshop in appendix 1.



## - PART 1 ACADEMIC DISCUSSION -



# 1 | Theoretical framework

In this part we will present some models that allow us to explain concepts and develop a framework to be used in designing cost-effective housing policies. There are two strands of literature that offer conceptualisation of this process. There is the welfare economics literature on the one hand and the public management literature on the other. In this chapter we discuss the conceptual features of both approaches. We conclude by proposing a combined approach.

## 1.1 Welfare economics framework

The welfare economics model (see Stiglitz, 1995; Barr, 1998; Baarsma & Janssen, 2007) has been broadly applied to evaluate and analyse reform in some areas of the welfare state (see Le Grand, Propper & Robinson, 1992). In this model the main reasons for reform or government intervention are efficiency and equity reasons. The welfare economics argument for government intervention is based on the idea that any allocation of available resources results in a certain level of social welfare. The aim is to attain a maximum level of social welfare. This point will be reached when the allocation of resources is both efficient and fair. So inefficient and/or unfair allocation are usually put forward as the motives for government intervention.

Besides these motives, Barr (1998: 9-11) identifies some additional policy goals of the welfare state that may imply government intervention, namely protection of living standards (*e.g.*, poverty reduction and economic security) and social integration (*e.g.*, protection of individual dignity and social solidarity). For reasons of simplification, for the field of housing policy, we restrict the description below to the first two policy intervention motives (inefficiencies and inequities).

### 1.1.1 Motivation for government intervention: inefficiencies and inequities

The allocation of resources will be efficient, if it is not possible to make an allocational change that makes someone better off without making someone else worse off (this is called Pareto-efficiency/Pareto-optimality). So the central idea of welfare economics is to reach that (Pareto-) efficient allocation of resources. Welfare economics further dictates that the most efficient allocation of a commodity will occur via allocation through the market (Barr, 1993, 1998).<sup>2</sup> And the market resource allocation will be efficient only if the following assumptions hold:

1. perfect competition: there is perfect competition if there is price-taking and equal power. Price-taking exists when there are many suppliers and many demanders so that no market actor has the power to influence the price of a homogeneous good by individual actions; the assumption is violated where there are monopolies, oligopolies or monopsonies. If equal power of all economic agents is in place, there will be no discrimination;
2. perfect information for all actors currently and in the future. All economic agents need to be perfectly informed in order to be able to make rational decisions. It implies that consumers and producers perfectly know the price and the quality of a good and have knowledge about the future. A situation of imperfect information can arise for example when there are information asymmetries: a situation where one of the actors has more or better information on the traded

<sup>2</sup> We use Barr (1993 and 1998) in the theoretical part of the framework because later versions do not explicitly treat housing. There it is considered a good of which the allocation is organised by the market.

good than the other (see for example Stiglitz & Weiss on credit markets, 1981) may lead to a situation of inefficient allocation of resources. Sometimes the market itself can solve this type of problem by its industry of valuers (relevant for houses, jewellery, etc.) or surveyors. The problem of lack of information about the future is sometimes solved by the insurance industry;

3. no market failures. Market failure can exist for pure public goods, when there are increasing economies of scale or when there are externalities. Pure public goods are goods characterised by non-excludability, non-rivalry and non-rejectability. In most cases these goods will not be provided by the market (or if so, inefficiently). In the case of increasing economies of scale the average cost is higher than the marginal cost regardless of the production amount. This will lead to long-term losses in case of competitive pricing (pricing at marginal cost) and will drive firms out of the market. This can result in a monopoly situation or in completely ceased production. In both cases output is below optimal. When there are externalities the actions of an actor create costs or benefits not only for himself but also for other actors in society without compensation or payments between these actors. Externalities can be good, for example the effect of private home renovation on the neighbourhood, or bad, for example industrial pollution. In the case of external costs, the market output will be higher than what is efficient and in the case of an external benefit, the market output will be lower than what is efficient.

Imperfect competition, imperfect information or market failures justify government intervention in order to achieve an efficient allocation of resources.

Besides efficiency problems in the market, a society can also indicate that the resulting allocation of resources creates equity problems. If an efficient allocation outcome is judged by society as being (too) unequal or unfair and therefore not acceptable, the government can intervene. In that case, the situation requires government intervention on equity grounds. Both vertical equity and horizontal equity are pursued. Obtaining vertical equity implies a redistribution of income from rich to poor. Horizontal equity implies minimum standards of goods for all, equal access and equality of opportunities. (More detail on motivations for policy intervention can be found in Chapter 2).

### 1.1.2 Choice of policy instruments

While the existence of inefficiencies, inequities or other welfare state problems may justify government intervention, some problems may be solved by the market itself. When the problem is not solved by the market, the identified problem becomes a reason for government intervention.

Besides identifying motives for government intervention, welfare economics also offers theoretical argumentations in favour of certain policy instruments being more efficient with respect to a given identified motive for policy intervention. For example, while regulation, finance, or public production may be defended as intervention methods for reasons of efficiency, income transfers can serve both efficiency and equity goals (Barr, 1993) (see more detailed discussion of instruments and instrument choice in Chapter 3). Finance involves subsidies (which could also be distributed via the tax system) applied to the prices of specific commodities or affecting the incomes of individuals. Income transfers can be tied to specific types of expenditure (e.g. housing allowance) or untied (e.g. social-security benefits).

The implication of the welfare economics approach is that the choice of instruments seems to be a mere technical one. Barr (1993: p. 4-5) puts it like this:

*'The first question (what are the aims of policy) is clearly ideological and normative; [...] But once that question has been answered, the second question (by what method are those aims best achieved) is very largely one of method and more properly the subject of technical rather than political discussion.'*

Barr (1998: 98) states:

*'The proper place of ideology is in the choice of aims, particularly in the definition of social justice and in its trade-off with economic efficiency; but, once these aims have been agreed, the choice of method should be regarded as a technical issue rather than an ideological one.'*

In Figure 1.1 we show how the identification of a problem, which forms a motivation for government intervention, directly leads to a certain instrument type in a rather technical way, when applying welfare economics reasoning. For example a market inefficiency due to imperfect competition arises where unequal power leads to discrimination. The policy objective would be to tackle discrimination with regulating it (making discrimination illegal) (see Figure 1.1). Which instrument is the most efficient one in a certain situation is discussed in more detail when applied to housing policy (see Chapter 2 and 3).

Additionally, not only should a policy instrument be suitable given a certain problem, it should also create net gains in terms of welfare. The cost of implementing an instrument should not exceed its benefits. The cost does not only include the direct financial cost of the inputs, but also the administrative cost attached to a certain type of instrument. The cost can also include utility losses due to for example restricting consumer choice. The best instrument would be the method where, when implemented, the difference between costs and gains is largest. Chapter 4 focuses on how to determine the costs and gains to be included and how to measure them.



Figure 1.1 Policy intervention motivations and instrument choice in welfare economics

Welfare economics		Policy intervention motive		Policy objective	Instrument	
Market inefficiencies	Imperfect competition	No price-taking ( <i>e.g.</i> monopoly, monopsony, oligopoly)	Make monopolist reach efficient output	Regulation: imposition of maximum price		
				Price subsidy		
	Imperfect information	Unequal power ( <i>e.g.</i> discrimination)	Reach (more) equal power	Regulation		
		Imperfect information	Consumers/producers badly informed about prices	Make information about prices available (if not solved by market <i>e.g.</i> via valuers)	Regulation	
	Consumers/producers badly informed about quality		Make information about quality available (if not solved by market via specialist institutions)	Regulation (if information failure small)		
				Public production & allocation (if information failure complex or costly to provide)		
	Consumers/producers badly informed about future	Protect consumers/producers against future (if no insurance offered via market)	Public production			
			Market failure	Pure public good	Provide public good	Public production
	Increasing economies of scale	Keep industry in existence privately		Lump-sum subsidy		
		Keep industry in existence publicly (nationalise)		Public production		
	Externalities	Enforce a minimum level of activity/restrict activity below a maximum		Regulation		
		Marginally change levels of production/consumption	Tax/subsidy			
	Inequity of resource allocation	Horizontal inequities (Unequal access/ unequal opportunities)	Imperfect information, unequal power or externalities	Achieve minimum standards for all, improve know-how (about value of <i>e.g.</i> entitlements, legal rights, ...)	Regulation	
					Subsidy	
					Public production	
		Vertical inequities	Shortage of income (Standard assumptions hold)	Increase income	Cash redistribution	
Inequities linked to unequal income distribution	Redistribution from rich to poor		Income redistribution via cash transfers (in-kind only if efficiency problems)			

\* Additional goals for the welfare state (reduction of poverty, promotion of economic security and social integration; Barr, 1998) are not unravelled, although achieving housing goals may impact on poverty and policies to relieve poverty may impact on housing problems.

Source: Barr (1993), p. 79-85

In conclusion, welfare economics provides motivations for policy intervention. Intervention will be justified, if there are efficiency problems that cannot be solved by the market itself or if the resulting inequities in the allocation of resources are considered unacceptable by society. Intervention may also be justified in the case of other goals of the welfare state, such as the fight against poverty, but the focus in this report is on housing policy. The observation needs to be re-emphasised that there may be an interrelationship between the different goals of the welfare state and the instruments that are used to achieve the goals.

When a certain efficiency or equity problem is identified, and requires policy intervention for example in order to make the market operate more efficiently or to make the allocation of resources more equal, the choice of instruments is guided by the nature of the policy intervention motivation.

Assessment of an outcome (what are the costs and the benefits?) is in measurement of utility gains and losses of individuals. But since utility is not measurable, the cost-benefit analysis is often based on income and price changes (van Staveren, 2009). The problem remains how welfare (changes) can be measured in monetary terms when there are no prices available for the costs and the benefits.<sup>3</sup> In Chapter 4 we will discuss in more detail different methods used to measure and value (changes in) welfare.

## 1.2 Public administration model

The public administration model can be used to represent the public sector management cycle, which allows to measure performance of the public sector. Variants of this model are discussed for example in Van Dooren, Bouckaert & Halligan (2015); Jonker (2012); Heylen, Haffner & Winters (2010); Stephens *et al.* (2010); Winters *et al.* 2010; De Peuter, *et al.* (2007); Bouckaert & Auwers, 1999.

### 1.2.1 Motivation for government intervention

In Figure 1.2 we present the main ingredients of the public administration model. The Figure is largely based on two models: the production model of performance of Van Dooren *et al.* (2015), the open system-model of de Peuter *et al.* (2007) and Heylen *et al.* (2010), with some adaptations. Most models discuss the government's objectives but we follow Heylen *et al.* (2010) who make the difference between strategic and operational government objectives. The model starts from acknowledging a need for government intervention when there is an awareness that the existing socio-economic situation does not lead to a fulfilment of the government's strategic objectives (for example to ensure access to housing for all). Strategic policy objectives find often their base in the principles of a country and its ideology (see later Section 2.1). This gap can be defined by civil servants, interest groups, media or even chance events but the politicians will eventually determine priorities. Next, strategic policy objectives will be translated into operational policy objectives (continuing the example of housing access as a strategic objective, the operational objective may be that discrimination should be eliminated). The relevance of (strategic and operational) objectives needs to be assessed against the socio-economic situation (see Figure 1.2).

### 1.2.2 Choice of policy instruments

The identification of strategic and operational objectives, leads to decisions on how to achieve the objectives. Personnel and financial expenditure will have to be allocated (usually called inputs, alternatively means or resources), which via certain processes or activities (the policy instruments used) will be transformed into goods or services (outputs). How outputs then further translate into outcomes (impacts on society), is not only influenced by government intervention (and to isolate the impact attributable to government intervention is a nearly impossible task to perform), but also by contextual factors (such as the economic situation, demography, migration, social circumstances, ecological trends, policy measures from other policy domains, etc.) which may enhance or attenuate the effect of government intervention, or even nihilise. Therefore the outcomes are located outside the government sphere of influence in Figure 1.2.

<sup>3</sup> Van Staveren (2009) mentions the technique of willingness-to-pay surveys resulting in virtual prices for resources and outcomes without price such as nature or social cohesion.

Outcomes will be evaluated against the strategic goals. The relationship between outcomes and strategic objectives measures the effectiveness of government intervention.<sup>4</sup> The relationship between outcomes and inputs is called the cost-effectiveness of the government intervention. An intervention will be called more cost-effective, if a lower amount of inputs is used to obtain the same level of outcomes, or it will be designated as more cost-effective, if better outcomes are achieved with the same amount of input. The amount of inputs that can be allocated to an intervention is linked to the economy or the state of public finances. The relationship between inputs and outputs is called the efficiency of an intervention. An intervention is efficient when the same output cannot be reached with a lower amount of input or when the same amount of input cannot lead to higher outputs. Sometimes the relationship between inputs and outputs is called productivity (*e.g.* Jonker, 2012); for example then it shows the costs for one teacher or one public dwelling.

There is one more link to explain in Figure 1.2., namely the link between outcomes and the socio-economic situation. How do outcomes affect the actual socio-economic situation? This involves an assessment of the sustainability and the utility of a government intervention. Sometimes a well-being relationship figures in the model (*e.g.* Jonker, 2012), namely how the outcomes change the well-being of citizens.

Contrary to the welfare economics approach, the ex-ante choice of instruments is not theoretically guided in this model, but needs to be based on evaluations of policy (programmes). Two terms are often used interchangeably but do refer to different processes in the public administration model, namely performance management and performance measurement (Freyer, Antony & Ogden, 2009). Freyer *et al.* (2009) describe performance measurement as being about the past (ex-post), while performance management is about the future (ex-ante), involving actions based on information from performance measurement results.

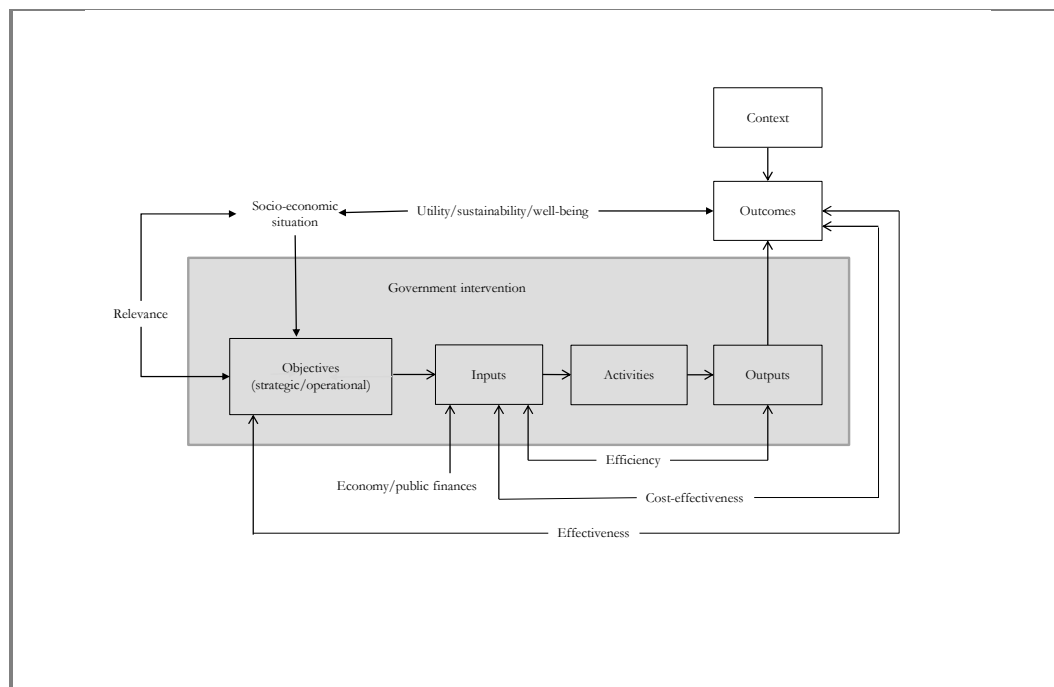
Performance measurement is central in for example planning or reallocating budgets, and in the design of policy instruments. The purpose of performance measurement (why performance should be measured) will dictate the how (Behn, 2003), if at all, performance can be measured (see discussion on measuring efficiency of welfare states, for example Vandenbroucke, Diris & Verbist, 2013). Behn (2003) lists a series of possible purposes and their requirement of different measures: performance measures can be used to evaluate, control, budget, motivate, promote, celebrate, learn and improve (this is the why). According to Behn (2003) various other purposes (such as planning, decision-making, modifying programmes, setting performance targets, informing stakeholders, etc.) are sub-purposes of one of (or a combination of more of) the eight purposes defined. With respect to the purpose of evaluation, the terms effectiveness and cost-effectiveness come in. To be able to determine if the government achieves its goals, a measure of the outcomes the government aimed to affect, is required (Behn, 2003).

Hence, the next step is to define what exactly to measure. For this purpose, indicators are often used, which can be divided in four types (Fryer *et al.*, 2009): (1) output (how much of a product or service is being produced?); (2) welfare (the value to the final users), and also well-being can be included in this category; (3) outcome (how large is the impact on society?); (4) performance (how are the services being produced?). A composite indicator groups or combines any of the four types of indicator. Emphasis has shifted away from output towards outcome indicators, Fryer *et al.* (2009) argue, as an outcome measure can be more easily compared to the goals the government set out to achieve (*cf.* effectiveness) than an output measure. When comparing the outcomes and the inputs, cost-effectiveness statements can be made. To complete the outcome evaluation the impact evaluation involves the question of which part of the outcome can be attributed to the government's intervention? And the best-practice questions of comparing the practices and operations of the government with those known as being the most cost-effective ones. With respect to ex-ante evaluations

<sup>4</sup> In Van Dooren *et al.* (2015) effectiveness is defined as the relationship between outputs and outcomes, but most authors seem to use the relationship between outcomes and objectives in the sense that effectiveness in figure 1.2 represents the extent to which strategic objectives are achieved.

(Heylen, Haffner & Winters, 2010), the evaluators will have to use expected outcomes and expected/budgeted inputs (social cost-benefit analysis/cost-effectiveness analysis). The ex-post data can then be compared to the ex ante expectations.

**Figure 1.2 Policy intervention in the public administration model\***



\* Another definition for cost-effectiveness was used in this figure, not following Van Dooren *et al.*, but for example Jonker, 2012.

Source: based on Van Dooren *et al.* (2015), de Peuter *et al.* (2007), Heylen *et al.* (2010), adapted

In conclusion, policy intervention in the public administration model is justified if the relevant strategic objectives of the government are not met. On the basis of this ascertainment operational policy objectives are formulated. The choice of instruments is guided and adjusted by a series of evaluation criteria including efficiency, effectiveness and cost-effectiveness considerations, either past-oriented (performance measurement) or future oriented (performance management).

### 1.3 Combining the models

In this section we present the approach which we will use in the remainder of the report. The model introduces elements of the welfare economics model into the public administration model, which is chosen as point of departure as it is more flexible in its determination of government objectives. Introducing the welfare economics principles into the public administration model could further guide the setting of operational goals and the choice of instruments in a technical way.

The start from the public administration model where the operational objectives of a government intervention are determined by the country's (or other locational definition) strategic objectives, implies that the awareness that the strategic objectives are not met is taken as a sufficient condition for government to intervene.

The welfare economics will be added into the public administration model to the steps where operational objectives are set and where policy instruments will need to be selected (see overlay in Figure 1.3). Welfare economics is in a sense stricter than the public administration model, since it

starts from a well-determined set of policy intervention areas for the welfare state, namely market inefficiency and inequity (our focus here, as explained in Section 1.1.2). The identification of market efficiency and social equity problems leads via theoretical argumentation to a selection of suitable instruments. The final choice of instruments is guided by criteria of (cost) effectiveness (see Figure 1.3) and can be evaluated via performance measurement and performance management studies from which governments can learn and adjust their strategy. Last, but not least, the benefits (improvement of the outcomes; its effect on society) should be larger than the total costs for society. In this regard, principles such as consumer choice (which has a positive relationship with utility) will have to be considered. These phases in our combined framework are elaborated on in the next sections.

### 1.3.1 Motivations for government intervention and setting the operational objectives

As in the public administration model, the combined model starts from a socio-economic situation and the identification of a gap between this situation and the strategic government objectives.

Before setting operational objectives, we include at this point the principles of welfare economics in order to find reasons for this gap. These reasons may then both influence the setting of operational objectives and the choice of instruments. So similar to what Baarsma & Janssen (2007) have done for their roadmap for the selection of social policy instruments for the Netherlands, the principles of welfare economics will play a role in our framework in Figure 1.3. Welfare economics principles will form a kind of overlay in the public administration model with the aim to offer theoretical guidance both in identifying the motivations for government intervention, the relevance of the operational objectives, and in the choice of instruments. So the additional step between the identification of unmet strategic objectives and the identification of the operational objectives, lies in the identification of a reason why the gap exists. This part is what Baarsma & Janssen (2007) call their What-question. This is an important step which is often skipped, these authors argue. All too often, the instrument choice question (How-question in Baarsma & Janssen, 2007) is addressed immediately after observing unmet strategic objectives without analysing what can cause the gap.

Following the welfare economics reasoning, the motivations for government intervention can be found in an inefficient allocational outcome of the market (due to problems of imperfect competition, imperfect information, or market failure) or in an inequitable outcome. The motivations put forward by Baarsma & Janssen (2007), namely the existence of (complex) external effects (including increasing economies of scale and monopoly power), asymmetric information and heterogeneous quality, and the redistribution of income fit largely into the welfare economics motivations of efficiency and equity.

Baarsma & Janssen (2007) mention paternalism as an additional motivation for intervention. Paternalism can be used as an argument to intervene in situations where well-informed individuals that are in principle able to pay for a higher level of consumption, underconsume a certain commodity because the consumers do not value enough the positive effects of consumption. However, paternalistic motivations often amount to problems of information imperfections or lack of income, Baarsma & Janssen (2007) argue. Either consumers are not well informed about the effects of consuming a certain good or they are too short-sighted in that they are not valuing the long-term effects of consumption high enough. Or they are not able to pay for the required level of consumption. The paternalism argument can be linked to the merit good nature of a good or to its basic need nature. If a commodity is considered a basic social need, of which society collectively believes that its consumption is inherently desirable, it should be publicly supported (Barr, 1993). So the basic need characteristic of a good can be used as a motivation as well, even in the absence of efficiency or equity problems. The basic need argument includes also the inability to turn a (basic) need into effective demand due to inadequate financial resources, as put forward by Oxley (2004) with respect to housing.

A final motivation can be government or regulation failure (Baarsma & Janssen, 2007). If government intervention has led to socially undesired effects, this has been called government failure. In this case, new government intervention may be necessary. In Barr (1993), the government failure argument of intervention points to two distorting influences: 1) the response of government to voter coalitions and pressure groups and 2) the role of bureaucrats. The first point can lead to transfers from the rich being captured by the middle class through their electoral power or through their action as interest groups. The latter point refers to the distortions that can arise within the government when the utility-maximising actions of the bureaucrats are not fully monitorable by the politicians. But we will not go deeper into this motivation.

After having identified the causes of problems in unmet strategic objectives (the what-question has been answered), the operational policy goals can be derived.

### 1.3.2 Choice of policy instruments

The next step in our approach consists of the inputs and the activities the government will undertake (How?), or in other words, the instruments that will be selected for government intervention. Here too, the welfare economics argumentation can guide the selection of a certain instrument (type) given the intervention motivation (following Figure 1.1). But since the government is not acting in an isolated vacuum, the impact of an intervention can be affected (positively or negatively) by its context (economy, demography, migration, social circumstances, other policy fields, among others). Given the expected effect of the context on the outcomes of a policy instrument, these contextual elements will influence not only the outcome, but also the choice of instruments. The link between different elements of the context on the choice of instruments is added to the model.

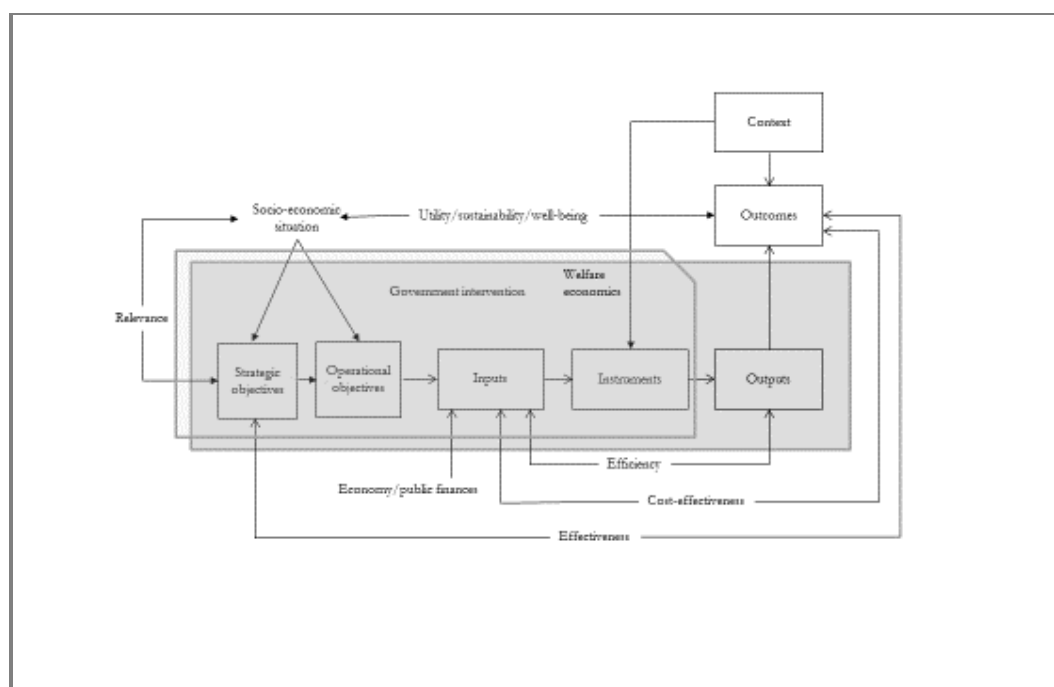
Following the How-question should be an If-question. Also this part is often unanswered, Baarsma & Janssen (2007) argue. The focus is often on benefits and implementation costs (including administrative costs), but costs that result more indirectly from a policy intervention are often not taken into consideration (for example disruptive effects, or more restricted consumer choice, negative externality effects *e.g.* of large social housing estates). A cost-effectiveness analysis should ideally include more than the pure implementation costs but also other costs of intervention. Also on the benefit side, positive externalities are often not included (and difficult to measure, *e.g.* positive long-term effects of gentrification on a neighbourhood/city or on poverty relief). Even though they may not be quantifiable, admitting their existence and possible impact, can be taken as elements in the decision on instruments. There are many ways to measure welfare (gains and losses) and also in the method of cost-effectiveness evaluations a choice will have to be made. Effectiveness but also efficiency are not value-neutral (van Staveren, 2009) and there are many definitions and methods to measure them (see Chapter 4). In our framework we restrict the choice to the definitions of efficiency and effectiveness used in the public administration model but where the criteria of the welfare economics approach are used to guide the choice of instruments.

### 1.3.3 Visualisation of government intervention

For the visualisation of the approach in Figure 1.3, we build on the public administration models developed by Van Dooren *et al.* (2015), de Peuter *et al.* (2007) and Heylen *et al.* (2010) with some adaptations in naming and linking (Figure 1.2). We add two elements: the welfare economics overlay and the explicit link between context and instruments. The welfare economics overlay can influence the setting of the operational government objectives and the instrument choice. The former builds on the analysis of the situation causing the strategic goals not to be fulfilled, or the motivations for government intervention (see Chapter 2) and the latter builds on the idea that once the operational goals are set, this can guide the choice of instruments (see Chapter 3). Expliciting the link between

the context and the instruments builds on what has been found in the empirical literature (see Chapter 5).

**Figure 1.3** Combined welfare economics\*/public administration approach



\* The welfare economics reasoning is added into the public administration model to the steps where operational objectives are set and where policy instruments will need to be selected.

Source: based on Van Dooren et al. (2015), de Peuter et al. (2007), Heylen et al. (2010), adapted

In Table 1.1 we link the different steps in the policy instrument selection process from the model above with the approach that is used in a certain step (public administration or welfare economics) and in which section(s) this is further discussed in the remainder of the paper.

**Table 1.1** Steps in the policy instrument selection process based on the combined approach

Step	Approach to apply	Applied to housing
Strategic objectives versus socio-economic situation	Public administration	Section 2.1 & 2.2
Reasons for gap (what?)	Welfare economics	Section 2.3
Operational objectives	Public administration/ welfare economics	Section 2.4
Instruments selection (how?)	Welfare economics	Section 3.3
	Context	Chapter 5
Cost-effectiveness (if?)	Public administration	Chapter 4

In conclusion: in the use of the model combining public administration and welfare economics, policy intervention will be justified, if there are strategic policy objectives that are not met (by other actors such as citizens or firms). Additionally, the motivation for government intervention needs to be identified more specifically in determining the problems that may cause the gaps to exist in order to address the gaps in the most efficiency and equity promoting way. So the operational policy objectives

can only be set in a third step, after identification of unmet strategic objectives and the problems causing this.

The choice of instruments is guided not only by the identification of an unmet policy objective but also by the analysis of what may cause this. Moreover, an evaluation is needed (if these instruments should be implemented) not only based on (empirical) considerations of efficiency, effectiveness and cost-effectiveness but also by an assessment of the context; for example, issues such as demand and supply elasticities of goods will influence the impact and hence the adequacy of subsidies (see 5.1.3.1 and 5.1.3.2). A final step should entail an ex ante cost-effectiveness evaluation.

Taking this combination of the models as starting point, the next chapter will elaborate on the motivations for government intervention in the domain of housing. This entails both the identification of where strategic policy objectives are not met and the identification of problems causing this gap to arise. The motivation for government intervention will act as a guide on instrument choice: theoretical elaboration of how the answer to the what question (what is causing strategic objectives not to be met?) follows in Chapter 3, while empirical considerations of effectiveness and cost-effectiveness in different contexts are discussed in Chapter 5. The content of the fourth chapter will provide input on measuring housing outcomes and cost-effectiveness.





## 2 | Motivations for housing policy intervention

In this chapter we discuss the motivations for policy intervention applied to housing policy. We discuss the strategic policy objectives that can be observed in the domain of housing (Section 2.1). A discussion follows on the not-housing related goals (Section 2.2). According to our framework in Chapter 1 a reason for policy intervention exists when the strategic objective is not fulfilled. Before setting operational objectives, we first investigate what is causing ‘the problem’ (Section 2.3). This is where the principles of welfare economics can be used (see overlay in Figure 3.1 discussed in Section 1.3). We include here how the specific characteristics of housing may create problems with respect to efficiency or equity. Then the next step is to determine the operational policy goals (Section 2.4). How the motivation for policy intervention offers argumentations for the use of suitable policy instruments will be discussed in the next chapter.

### 2.1 Strategic housing objectives: housing as a basic need

A legitimate foundation for the determination of housing outcomes and strategic (sometimes called fundamental) policy objectives can be found in the principles or the objectives of the welfare state, or in the basic need nature of housing, or merely in the constitution of a country (the right to housing).

It is not straightforward to find a clear definition of the welfare state and the consensus is that there is none that satisfies all, but some refer to G.D.H. Cole’s ‘the welfare state is a society in which an assured minimum standard of living and opportunity become the possession of every citizen’. More principally, it can be put that the welfare state is one where the government undertakes action to protect and enhance the well-being of its citizens.

This well-being of the citizens will be influenced by their housing situation. Under the objectives of fighting poverty and social inclusion (see Europe 2020)<sup>5</sup> the collection ‘material deprivation’ in the Europe 2020 covers indicators relating to economic strain, durables, housing and environment of the dwelling. Housing rents and prices have a direct and major impact on disposable income; so price and availability of housing shape the well-being of different socio-economic groups, *e.g.* the elderly, the homeless (MacLennan & Gibb, 1993). Not only the cost but also the quality of housing are considered strong determinants of living standards and well-being (Eurostat, 2014; Balestra & Sultan, 2013). Housing in the form of shelter but also as offering security, privacy and personal space are considered basic needs and in many constitutions the right to decent housing is explicitly included as a socio-economic fundamental for all (see for example Bernard & Hubeau, 2013). If housing is considered a basic social need, of which society collectively believes that its consumption is inherently desirable, it should therefore be publicly supported (Barr, 1993; Lux, Sunega & Boelhouwer, 2009). Housing should also be decent. Decent housing can be determined as a socially and politically acceptable minimum standard of housing (Oxley, 2004). The consumption of it should therefore not be based on ability to pay but on need. If there are households whose need is not met (due to affordability or access problems) there will be a gap between the housing need and the equilibrium quantity of decent housing in the market. This gap is called the housing requirement or housing need gap (MacLennan & More, 1997). This policy intervention reason is the basis of many housing policies in

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<sup>5</sup> [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

Europe and is often expressed as ensuring access to decent and affordable housing, especially for the low-income consumers.

On top of delivering a minimum standard of living and opportunity for all, the distribution of resources (and opportunities) should be fair. The degree to which a distribution is experienced as unfair is mostly a political matter and will be linked to the type of welfare regime (see Esping-Andersen for a typology of welfare regimes, 1990).

So in the end, the desired housing outcomes are an ideological and political result. In his description of housing needs, Oxley (2004) states that: 'A need for housing is a socially determined requirement for accommodation. Housing need is also complemented by housing standards that define a socially determined minimum level of quality.'

Housing security is sometimes explicitly included as a goal. Also adequacy can be mentioned. Adequacy can include that the housing situation is unfit to the occupiers' age, disabilities or family composition, or it may include situations of illegal living (such as caravans on illegal campsites, see ETHOS typology on housing and housing exclusion).<sup>6</sup> In the remainder of the text we will restrict our attention to the following core goals of housing policy, namely access (including long-run access or housing security and homelessness), affordability and good quality (including quality of the neighbourhood).

## 2.2 Not-housing related desired outcomes

Sometimes housing policies set goals upfront which are not linked merely to the strategic housing objectives of access, affordability and quality but affect other parts of society or the welfare state, such as the wider macroeconomic development, or durability.

### 2.2.1 Health, childhood development and macroeconomic development

The housing system (housing market and housing policy) is connected with other markets and outcomes, for example with the labour market through health and labour productivity or mobility issues. Good housing conditions do not only affect people's health (Eurofound, 2016) but also childhood development (Balestra & Sultan, 2013) and productivity. But also for example by investing in owner-occupation, investible resources have been driven to owner occupation (which involves relatively more often second-hand rather than new construction) away from more productive forms of investment (MacLennan & Gibb, 1993). Through its effect on other markets housing policy and the housing market is assumed to affect wider economic development.

### 2.2.2 Employment

Not only through decent housing situations and its effects on health and productivity, but sometimes also directly through its effect on employment, housing policies many times find a motivation in improving employment (in a certain sector). For example, Europe allowed VAT-exceptions where *e.g.* VAT could be reduced in labour-intensive sectors to fight high unemployment during the end of the nineties (Commissie van de Europese Gemeenschappen, 1997), which became standard policy (OECD, 2008). For example in Belgium, through its reduced VAT-tax on renovation activities (from 21 to 6%) the aim was to enhance activity and employment in the construction sector.

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<sup>6</sup> <http://www.feantsa.org/spip.php?article120&lang=en>

### 2.2.3 Durability and energy-use

Households are important energy users (in 2010 households were the second largest energy consumers, using 27%, after transport and before industry; Pittini *et al.*, 2015), not in the least through heating. Their energy use is dependent on the characteristics of the house they live in (*e.g.* through the absence or the type of insulation, passive or zero-energy house construction, the use of high-efficiency boilers, etc.). As this energy use has negative environmental and climate effects, durability and (low) energy-use aims are often implemented via policies in the housing domain such as green loans at reduced interest, or subsidies to support the user or implementer with the cost of the investment. On top of the climate effects, better energy-quality of dwellings will also help to relieve fuel poverty which is a major problem in many Central, Eastern and Mediterranean countries (Pittini *et al.*, 2015).

### 2.2.4 Promoting owner-occupation

Housing policy is often organised along a housing tenure divide (and is often not tenure neutral). In many countries there is a political consensus that owning is superior to renting which leads to a relatively higher weight attached to subsidising owner-occupation than renting. There is a list of positive effects attached to ownership: (neighbourhood effects: owners feel more related to their neighbourhood hence promote social inclusion, house quality: owners are supposed to be more inclined to maintain the house better due to their financial interest in it, protection towards poverty in old age due to reduced housing expenditure when the mortgage is finished, more housing security; discussed in Haffner, Van den Broeck & Winters, 2014). However, the positive effects ascribed to ownership are not always proven and not necessarily higher than the negative effects such as the (labour) mobility restriction. The relationship between housing tenures and labour market effects (*e.g.* unemployment duration) has been investigated for many countries but the conclusion is not unambiguous (called the Oswald-puzzle, Van Ewijk & Van Leuvensteijn (2009); Coulson & Fisher (2009)). Owners are less likely to move when their housing situation is not adequate for their needs. Ownership promotion leads to overinvestment (bigger houses being built on larger plots, or households continue to live in large houses even when children have left the house (Bervoets & Heynen, 2013). Also, ownership promotion leads to higher house prices (Vastmans, Heylen & Goeyvaerts, 2014) with effects on affordability both for owners and for renters.

Moreover, this superior treatment of owners might interfere with equity objectives and be considered unfair (equity problem!). According to Barr (1998) a consumer of housing services should be able to make the choice of tenure irrespective of the cost of different tenures. To guarantee equal opportunities this cost should be equal. Maclennan & Gibb (1993) stated already in the early nineties that in order to produce an efficient and fair housing subsidy system, tenure should be de-emphasised as a policy objective. Instead the policy objectives should be adequacy, accessibility and affordability. Exactly these objectives are in fact also included in the housing policy objectives of many countries but, explicitly or implicitly, owner-occupation still appears to be favoured (*e.g.* Spain, Belgium).

## 2.3 Problem analysis: determining areas for policy intervention

In Section 2.1 we identified the strategic housing policy objectives. When the actual situation does not respond to the strategic objectives, and when this is not solved by the market or by society, there is a reason for government intervention. We identified before the basic need gap as a reason for policy intervention, market inefficiency, unfair outcomes and government failure.

The existence of a gap requires investigation into the potential government intervention area (and the policy instruments expected to have the most efficient effect given the situation). So the observation of unfulfilled strategic policy objectives (for example when there are affordability problems with respect to the goal that housing should be affordable) should be followed by a problem analysis. Why do these affordability problems exist? For this purpose we use the welfare economics overlay

discussed in Section 1.3. It has to be investigated if there are market inefficiencies or inequities in outcomes (distributional problems). These motivations are often linked to certain characteristics of commodities (in this case housing) because due to its characteristics a good is more likely *e.g.* to create information imperfections. Even though housing is traded on the market, it is a very complex, multi-aspect good due to for example its locational aspects, its longevity, etc.

Due to the longevity of a house, (housing) policies of the past will still have an effect on current housing outcomes. Policies may have to be put into place to correct for the effects of earlier government failure. Preferably, an investigation into what caused this government failure precedes a corrective government intervention in order for it to occur on a transparent basis. For example, the specific (changing) context may make an intervention fail and/or the absence of an investigation into the problem/context. Also, if there is not enough support for a policy, it may fail (see later discussion on trade-off between targeting and creating social support for an intervention measure, where support for social policy in the middle can weaken with too high degrees of low-income targeting which can lead to smaller redistributive budgets and less impact on improving the situation of the poor).

So before setting the operational goals (Section 2.4), an investigation into what may cause the gap to exist is recommended and to this extent we use the welfare economics reasoning concerning market efficiency and equity problems.

### 2.3.1 Efficiency in the housing market

Welfare economics dictate that the most efficient allocation of a commodity will occur via allocation through the market. But market allocation will be efficient only if the conditions of perfect information, perfect competition, and no market failure such as the existence of external effects, hold. Efficiency motivations for government intervention can be alleged when any of the assumptions mentioned are violated. Efficiency in the housing context is obtained when:

- the size and the quality of the stock are efficient;
- when there is tenure neutrality (indifference between owning and renting) and;
- when the housing market is sufficiently flexible to ensure mobility (not preventing an individual currently living in one area from taking a job in another area) (Barr, 1993).

#### 2.3.1.1 Perfect competition?

Even though the housing market is characterised by a large number of sellers, buyers and other market agents, slow-supply-side response can create spells of seller power (MacLennan & Gibb, 1993) so the assumption of perfect competition is not fulfilled. Housing supply is typically inelastic in the short run. While long-run supply can be elastic (Barr, 1993), elasticity estimates are low even for long periods (MacLennan & More, 1997). The supply of housing consists of two parts, namely the supply of existing stock (usually through houses being offered for sale) and the supply of newly constructed houses. The supply elasticity of the existing stock is usually low while that of housebuilding industry depends on the ability of that sector to react to price changes (Oxley, 2004). Construction lags may also exist for example due to recognition lags or lags in securing land (MacLennan & More, 1997). The ability to secure land is closely connected to the land-use and planning regulations or the general availability (or scarcity) of land. Supply elasticity estimates indicate large variation across countries with relatively high supply elasticity estimates ( $>1$ ) for *e.g.* Sweden and Denmark and low ( $<1$ ) for many other European countries, with Switzerland (0.15) and the Netherlands (0.19) at the bottom (Caldera Sánchez & Johansson, 2011).

The assumption of perfect competition also fails for the rental sector when there are spells of landlord power. For example, when due to sudden immigration in an area, demand increases and supply of rental housing cannot react quickly. Or competition in the rental sector fails in particular when landlords get monopoly power over their renters (this occurs when a house becomes a home, creating opportunities for landlords to raise rents).

### 2.3.1.2 Perfect information?

Housing differs quite substantially from standard traded commodities in many aspects (for example its multidimensionality, relative illiquidity, high financial and utility transaction costs, spatial fixity; MacLennan & More, 1997; Lux, Sunega & Boelhouwer, 2009). Choosing a house does not merely involve the choice of the house as a physical commodity but it goes hand in hand with the choice for a certain location and neighbourhood. Consumer preferences differ in, for example whether one prefers to live in urban or rural areas or the distance and travel costs to work and to social, public or commercial services. This complexity makes also the matching process complex and creates information asymmetries between buyers and sellers. Consumers may spend a long time searching for the house that responds to their desires regarding all the dimensions it represents (MacLennan & Gibb, 1993). In this costly search also valuers and real estate agents may be involved. Due to its complexity and heterogeneity, the assumption of perfect information about the quality and the price does not hold. Due to its longevity also information about the long-term future is absent. At the time of buying the buyer does not know whether it will be destroyed by a fire or other calamity or how the neighbourhood will evolve. At the time of renting a renter does not know whether the landlord will move in. So price, quality and future information perfection can be violated.

Another information problem can be related to the merit good nature of housing. The merit good characteristic of housing boils down to the fact that governments assume that consumers of housing will choose to consume housing at a suboptimal level because they do not value the positive externalities of housing (for example on health, education, crime, macro-economic situation) enough (paternalism). Arguments of short-sightedness (paternalism) of consumers hold especially well with long-lived goods such as housing. While some authors ascribe to (decent, good-quality) housing characteristics of merit goods, others contest the idea of merit good (for example Oxley, 2000, 2004) and describe the underconsumption of the good, or the lack of effective demand, as a consequence not of underestimating the benefits of decent housing (imperfect information problem), but merely of being unable to convert the need or desire to consume into effective demand due to low ability to pay (lack of resources).

### 2.3.1.3 Market failure: externalities?

Also the existence of a market failure might lead to inefficient functioning of the market. Market failures can be caused by the existence of externalities such as the effect that structurally unsafe houses have on the neighbours or when houses with improper sanitation might pose a threat to public health. Housing can also create spatial externalities affecting (for example by reducing the value) surrounding property and whole neighbourhoods (Barr, 1993). MacLennan and Gibb (1993) describe for example the failure to maintain one's house as causing negative externalities for neighbours, and if the whole neighbourhood deteriorates, it may even affect wider urban residents as well. Housing externalities may cause not only individual but also collective income, productivity and growth effects (MacLennan & Gibb give the example of address discrimination being used as a screening device by employers). These locational aspects and their potential effects on economic development have also a consequence for housing policy, namely that the costs and the benefits of housing are seldom restricted to the housing sector but also affect other sectors (such as labour market) and the future (MacLennan & Gibb, 1993). The existence of external effects feeds the housing quality discussions for example on urban renewal projects or neighbourhood rehabilitation.

Another market failure arises if the private discount rate exceeds the social discount rate (Barr, 1993). If this is the case, the private sector tends to underinvest both in quality and quantity.

#### **2.3.1.4 Efficiency problems in related markets**

Furthermore, the link between housing and other markets, such as the capital and the land market, can justify interventions in the housing market. A specific issue of the complexity of housing is namely the fact that housing can be considered not only as a consumption good but also as an investment good. Due to its longevity it can be considered a capital asset. Hence, the working of the housing market is influenced by the availability of financial resources and access to financial markets on the one hand (Barr, 1993) and land markets on the other. If inefficiencies (or inequities, see later) in any of these interlinked markets exist, these may translate into inefficiencies in the housing market as well. For example, the credit market can often be characterized as imperfect, due to information (asymmetry) problems.

#### **2.3.1.5 Conclusion efficiency**

Baarsma & Janssen (2007) state that there actually are few efficiency reasons for government intervention left. For most of those, a market solution or a policy already exists. Barr (1993) mentions that many efficiency problems can be solved by the market itself, for example by the provision of housing insurance schemes or by supplying price and quality information (for example by the existence of a valuer and real estate industry, which may require regulation). Policy intervention to solve remaining efficiency problems are for example regulation (for example minimum standards of quality, regulation of rental markets) (see Figure 1.1).

### **2.3.2 Equity of housing outcomes**

A distribution of housing which is the result of the market allocation process, can be deemed unfair, and may therefore justify policy intervention. Both vertical equity, which is linked to income inequalities, and horizontal equity, linked to equal access and opportunities, can be an issue. The housing outcomes will be strongly linked to the income (in) equality and the poverty situation due to the high cost of housing services.

#### **2.3.2.1 Horizontal equity?**

Horizontal equity concerns include both access to housing and access to capital markets (Barr, 1993). Government intervention is justified if a certain problem affects certain socio-economic groups disproportionately. For example, when some households are excluded from access to credit, based on institutional conventions rather than on economic justifications (MacLennan & Gibb, 1993) there is a horizontal equity problem, for example loan denial based on address (Aalbers, 2011). Horizontal equity can be violated in the case where consumers cannot make rational choices due to information imperfections or when they cannot enforce their choice due to unequal power or when there are externalities, and where these affect some consumers more than others. But also prejudice- or taste-based discrimination towards persons with certain socio-demographic characteristics can justify government intervention on equity grounds. Other examples of horizontal equity problems are racial steering (real estate agents steering home-seekers towards or away from certain neighbourhoods) or accessibility issues (for example for persons with disabilities).

#### **2.3.2.2 Vertical equity?**

Vertical equity concerns arise when the distribution of housing is linked to an unequal income distribution. Both equity concerns due to shortage of income or inequality of the income distribution can be formulated as an unfulfilled housing need: when there are persons or families with an unfulfilled housing need caused by the inability to convert their need into effective demand due to affordability problems (Oxley, 2004).

### 2.3.2.3 Equity problems in related markets

As mentioned before with respect to efficiency, the housing outcomes are linked to other markets such as the credit and land markets. If inequities exist in those markets, they can translate to inequities in the housing market.

### 2.3.2.4 Conclusion equity

Equity problems in the housing markets can exist due to differences in income or other socio-economic characteristics and how they are linked to a household's housing situation. Oxley (2000) writes that housing problems are usually linked to problems of effective demand (turning a need into effective demand) which are linked to income. Since the definition of what is a fair and equal outcome, is a normative decision, there will be differences in which level of inequity can be accepted and when it becomes a reason for government intervention on the problem.

## 2.4 Operational objectives

From the analysis of what is causing that the strategic objectives are not met (as discussed in the previous section), the operational objectives can be set. In this section we present an overview of the above in a summary table (Figure 2.1). This table is the first part of the welfare economics overlay, namely where the causes of the gaps between strategic policy objectives and the housing situation are investigated and identify motivations for policy intervention. From here, the operational goals can be defined.

For example, if the strategic goal of ensuring affordable housing is not met, the market efficiency can be investigated. It can be the case that there is imperfect competition which create unequal power relations due to slow supply response which seems due to lags in securing land for the building industry. This lag can be caused by cumbersome administrative processes. The operational objective could then be defined: 'to create a smooth and transparent process for obtaining building permits'.



**Figure 2.1 Application of welfare economics overlay in housing: analysis of efficiency and equity problems**

Problem analysis			Detail	Concrete situation
Market inefficiencies	Imperfect competition	Unequal power	Spells of seller power or landlord power due to slow supply-side response	<ul style="list-style-type: none"> <li>- Supply elasticity existing stock low</li> <li>- Building industry: ability to react to price changes</li> <li>- Construction lags due to recognition lags or lags in securing land</li> <li>- Immigration in an area</li> </ul>
			Rental sector: monopoly power of landlords	When house becomes home: cost of moving larger than financial cost.
			Discrimination	Discrimination on the basis of socio-economic characteristics
	Imperfect information	Consumers/producers badly informed about prices	<ul style="list-style-type: none"> <li>- Complex good</li> <li>- Information asymmetries in complex matching process</li> </ul>	<ul style="list-style-type: none"> <li>- Selling a house, the seller has much better information about the quality of the house</li> <li>- Renting: the landlord has better information about the quality of the house while the renter has better information about his ability and willingness to pay and maintain the house</li> </ul>
		Consumers/producers badly informed about quality		
		Consumers/producers badly informed about future	<ul style="list-style-type: none"> <li>- Longevity of the house/capital asset</li> <li>- Renters: insecurity about the plans of the proprietor</li> </ul>	<ul style="list-style-type: none"> <li>- Insecurity about the occurrence of calamities or other events harming the house</li> <li>- Renters: do not know whether the landlord wants to move in</li> </ul>
Inequity of resource allocation outcome	Market failure	Externalities	<ul style="list-style-type: none"> <li>- Health externalities</li> <li>- Safety externalities</li> </ul>	Unsafe or unhealthy housing has effects public health/safety
			Spatial externalities	Property deterioration affects neighbours, neighbourhoods, wider residents
			Private discount rate > social discount rate	=> Private sector underinvests in quality and quantity
	Horizontal inequities (Unequal access/unequal opportunities)	Efficiency assumptions do not hold: imperfect information, unequal power or externalities	<ul style="list-style-type: none"> <li>- Unequal access to credit</li> <li>- Discrimination</li> <li>- Accessibility</li> </ul>	<ul style="list-style-type: none"> <li>- Credit not allocated on the basis of economic considerations but other characteristics</li> <li>- Discrimination on the basis of socio-economic characteristics</li> <li>- Accessibility problems related to age or disabilities</li> </ul>
		Efficiency assumptions hold: shortage of income	Income problem	If the standard efficiency assumptions hold, horizontal equity problems can only be due to shortage of income
	Vertical inequities	Inequities linked to unequal income distribution	Unequal income distribution	If the housing outcomes are strongly linked to income, an unequal income distribution will lead to an unequal housing distribution

Source: based on Barr (1993), adapted by authors

We want to remark that, due to housing's basic need nature, even in the absence of efficiency and equity problems, government intervention can be justified, and operational goals can be set based on an analysis of why the basic housing need is not fulfilled for all. In the case where both efficiency and equity problems prevail, theory does not make clear what should be tackled first and this will be merely an ideological issue. The importance attached to tackling efficiency or equity problems is again a political issue where more right-oriented governments will tend to attach more weight to efficiency problems, while more liberal oriented governments will attach more weight to equity issues, according to their respective ideologies.

## 2.5 Conclusion

While government intervention is justified based on strategic objectives which are found unmet by the socio-economic situation, an analysis of the problem(s) may lead to an explicit identification of what is causing the gap. At this point, welfare economics theory comes in. The cause of the problem (what-question) can lie in the inefficiency of the market and/or in the unfairness of its outcome. When the cause can be identified, operational objectives can be set. Besides the identification of operational goals, the answer to the what-question may advise the choice of instruments that will be used to address the gap.

In the next chapter the next part of the welfare economics overlay is presented, namely where given the gap and an identified motivation for intervention, the choice of instruments is discussed.



## 3 | From problem analysis to choice of instruments

Once the gaps are identified and the problems causing the gaps analysed, operational policy objectives can be set. The next step is to select the instruments that will be the most cost-effective given the situation. In this part we first give a broad overview of instruments available to policy makers (Section 3.1) and the principal questions that policy makers often are faced with (Section 3.2). This is followed by how to link the instruments to strategic and operational housing policy goals (Section 3.3). The instrument choice should ideally be guided by technically reasoning forward from the housing problems in society and the answer to the question of what is causing the problem. As Barr (1993: 109) put it: ‘the proper place of ideology is in the choice of aims [...] but once these aims have been agreed, the choice of method should be regarded as a technical issue, not an ideological one’. The resulting housing policy should be efficiency-enhancing and fair. In this part we discuss how the welfare economics overlay can guide policy makers in their choice of efficiency and equity-enhancing instruments.

### 3.1 Overview of instruments

Once the strategic and operational housing policy goals are identified, the discussion of which instruments to use can follow (= how to achieve the policy goals). There is a myriad of instruments available which can be categorised in many ways, for example by the resources the government allocates to the action (see overview of categorisations in Fobé, Brans & Wayenberg, 2014). Based on this criterion, there are different subcategorisations (for example that of Hood, 1984; or Van der Doelen, 1989; or Vedung, 1998). Common to these categorisations seem to be the division in financial/economic instruments, regulatory/juridical instruments and communicative/informative policies (for example applied in Baarsma & Janssen, 2007; Winters *et al.*, 2010). Hood (1984) defines a fourth category called ‘organisation’ which can include for example constructing roads, maintenance of parks, organising police and defence, providing shelter for homeless persons, establishment of social rental agencies, ... (examples from Fobé *et al.*, 2014, p. 29).

Following Barr (2012), the division is slightly different and more based on their impact in the market, as is briefly described in Section 1.1: a division can be made between four generic ways of intervention: regulation, finance, and public production, which interfere directly in the market mechanism, and income transfers which may have indirect effects. Finance involves subsidies (which can also be distributed by reduced taxes) applied to the prices of specific commodities or affecting the incomes of individuals. Subsidies can be tied to specific types of expenditure (*e.g.* housing benefit) or untied (*e.g.* social-security benefits). So in Barr’s division we do not find the communicative instruments. Since they may have a role to play in solving information problems in the housing domain, we follow the first division. The financial instruments in the public administration approach cover both the finance instruments and income transfers.

Another subcategorisation that can be made within each of the financial, regulatory or communicative instruments is by its stimulative or repressive effect (Van der Doelen, 1989). The stimulative mode of each of the categories is translated in subsidies, covenants or information programmes while the repressive mode is translated in levies, prohibitions and propaganda.

We will first discuss the financial instruments (direct subsidies and indirect fiscal instruments). Afterwards we discuss regulatory instruments (including planning) and finally, communicative instruments. As it is impossible to cover all types of existing policies, we remain quite broad in this overview. We devote a short paragraph to what are currently called innovative instruments (see 3.1.5).

### 3.1.1 Financial instruments

Financial instruments are monetary or other transaction means used by the government to offer incentives to the citizens or organisations in society (Fobé *et al.*, 2014). If they are intended to offer incentives they are called subsidies. When intended to influence behaviour repressively they are called levies. With respect to housing examples of subsidies are housing allowances, grants, interest rate subsidies, mortgage tax relief, renovation subsidies, etc. Examples of levies are empty property tax, hovel tax, under occupancy charge (*e.g.* bedroom tax), etc.

A further division of subsidies is between demand-side and supply-side subsidies (also defined as subject-based versus object-based subsidies or as tenant-based (or perhaps better occupier-based) versus project-based subsidies). This distinction between demand and supply can also be expressed as consumer versus producer subsidy (see Appendix 2). Another division is between direct subsidies (explicit public expenditure) and indirect fiscal subsidies (implicit public expenditure = foregone public revenue).

#### 3.1.1.1 Demand-side subsidies

Demand-side subsidies are used to support the consumers of housing (namely renters and home buyers) with the cost of housing in order for them to be able to afford the rent or price of their dwelling (Kemp, 2007). Demand-side subsidies (or subject-subsidies) can come in many forms and designs (see principal questions below). Typical examples are housing allowances (direct subsidy) or mortgage interest tax relief (indirect subsidy).

The choice of subsidies depends on many things, such as the constraints limiting effective demand. Income, access to credit or mental or physical capacity can all have smaller or larger effects on turning needs into effective demand for housing. But housing demand and supply elasticities can determine how the subsidies affect actual behaviour (and effective demand for housing) and effective incidence of the subsidy. Dependent on the degree to which the government on the one hand wants the income transfer to be spent on housing and on the other to respect consumer preferences, income transfers can be tied to a specific type of expenditure (such as housing benefits) or can be untied.

To address issues with financing of housing, credit access and cost problems are an important barrier. The cost of loans can be subsidised by reduced interest rates (for targeted groups) or by offering guarantees (through reduced risk this also reduces the cost of credit). If no access to market credit is possible, loans can be granted via public loan institutions (see Barr, 1993).

Besides via explicit public expenditure, the cost of housing for consumers can be subsidised in the form of implicit expenditures under the form of tax relief. A well-known example is the mortgage interest tax relief for owner-occupiers but tax relief can also be granted for energy-saving investments (reducing for example heating costs of the occupier) or renovation expenditures. Tax relief can be granted at marginal rate or at a fixed rate.

#### 3.1.1.2 Supply-side subsidies

Supply-side subsidies entail government support (finance) to the suppliers of housing (builders, landlords, financiers). Examples are low interest loans or capital grants to builders or landlords (direct subsidies) or tax relief to private landlords (indirect subsidy) (Kemp, 2007). Typically, the aim is to lower the price or rent that households will need to pay and these subsidies will make it possible for the housing providers to charge prices or rents below the market price (Kemp, 2007).

As an investment good, housing requires substantial financing, which can come from three sources, namely through own equity, through borrowing or through contributions, notably government subsidy and favourable tax treatment (Gibb & Whitehead, 2007). Reducing the capital cost has been considered an important instrument in stimulating the affordable housing provision (Housing Europe, 2013). One of earliest forms of subsidising the provision of (social) housing was through grants or interest rate subsidies and the use of government-sponsored debt but recently more complex instruments are in use (Whitehead, 2014, in Scanlon et al). But even now capital grants from both central and local governments and access to loans at reduced interest rates are offered together with government guarantees to reduce the cost of borrowing. MacLennan & Gibb (1993) state that where capital grants are selected as an instrument, they should be competitively tendered across all social and private landlords. Competitively tendered namely involves (theoretically) that the outcomes are the best value for society. To ensure the best value for society allocating grants to privileged partners only, is not straightforward as you have to deal with a monopoly situation.

Even though the link with social housing is often made (discussion of social housing below), suppliers in general (including private sector housing developers or private landlords) can be subsidised in order to stimulate supply (quantity and quality) and/or to reduce prices (in the private rental sector). The subsidy will often be dependent on predetermined rent and production levels and/or allocation conditions. But supply subsidies can equally well be completely unconditional (from price, production or allocation conditions).

On the supply-side too, rather than providing funds via direct public expenditure, tax concessions (implicit public expenditure) could also be an option to promote housing investment (Oxley, 2000). Tax relief may be granted to house owners who rent out, both private and social ones, individual landlords or institutional ones. By offering fiscal incentives to suppliers of housing, the cost of developing new housing is reduced which increases the rate of return for investors and developers (Oxley, 2004). Tax concessions are typically conditioned on renting out at below-market rent and/or to target groups (low-income households). Examples are the Low-Income Housing Tax Credits in the USA or the 'virtual social housing system' in Germany (Oxley, 2004). Also in Australia, landlord tax concessions were part of the policy to close the housing need gap by stimulating supply via private investors rather than via social housing associations (MacLennan & More, 1997). Housing is then private but with a social purpose. By so doing, there would also exist a larger variety of (social) housing for households to choose from so that their preferences are better met. Specific tax concession measures include depreciation allowances thereby reducing the tax bill of the landlords and increasing their rate of return, capital gains tax concessions, and changes in tax relief for rental income and operating costs (Oxley, 2000).

The private rented sector does not typically receive subsidies for its financing other than fiscal support from the government. But in the UK a currently active Build to Rent programme exists, to support the private rented sector's expansion. In this case not only social landlords but also institutional investors and private developers can apply (Stephens & Whitehead, 2014). By providing government funding also for private initiatives, based on who will be housed (conditioned supply-side subsidies) rather than on who will own the property, the rented sector is also becoming more integrated (Stephens & Whitehead, 2014).

Not only capital is required to supply housing but equally important is access to land. Land allocation can also be a way of subsidising the supply of housing by trading land below the market price or under a favourable contract (for example through concessions or leasehold?).

### 3.1.2 Regulation

Another type of instruments includes the regulatory measures. These measures assume that in order to change the behaviour of citizens or organisations a compulsory measure is needed, such as a prohibition (repressive) or a permission/agreement (stimulative), with sanctions attached if the measure

is not followed (Fobé *et al.*, 2014). With respect to housing, regulatory measures regulate access to, the quality of the house or parts of the housing market actors and actions (such as the surveyors, insurers, but also rents). Also land use regulations affect the housing market by affecting supply elasticities.

#### **3.1.2.1 Regulation of access**

Regulation of access is typically restricted to social housing under the form of allocation systems. The allocation system typically sets income limits, but other household characteristics may be used in the allocation process (*e.g.* homeless, disabled, elderly, pensioners, households with children, ...) (see country examples with formal or de facto income limits in Scanlon *et al.*, 2014, p. 11).

#### **3.1.2.2 Regulation of quality**

Minimum (housing) quality standards can be ensured via quality requirements for both owner-occupied and rental housing. Especially in the rental sector this comes with procedures of licensing, inspecting and fining.

#### **3.1.2.3 Rent regulation**

Regulation of the rent is a more disputed issue (more detail on the advantages and disadvantage of rent regulation in the next chapter; see for example Haffner, Elsinga & Hoekstra, 2012). The regulation of the qualitative characteristics of the rental contract, concerning for example the procedures for contract enforcement or the duration of the rental period, are often found to have positive effects for example on aspects of efficiency or equity (Cuerpo, Kalantaryan & Pontuch, 2014). The regulation of the quantitative aspects however (level of the rent and increases thereof), may have both positive and negative effects.

First-generation rent regulation existed in a freezing of rent while second-generation rent regulations were softer and more tailor-made (Haffner *et al.*, 2012). The currently most commonly used form of (second-generation) rent regulation is a cost-price based rent regulation for existing contracts. In practice it is usually the annual rent increase that is regulated and which is no higher than the increase in a price index (*e.g.* consumer price index).

Rent control, where the level of the rent at the start of the contract is not allowed to increase above a certain ceiling, results many times in a (frozen) below-market rent. Expenditure-wise, it is a cheap instrument for governments as it actually is a subsidy paid by the landlord to the tenant, rather than by the government to the tenant.

#### **3.1.2.4 Regulation of land use and planning**

Since the availability of land influences the effective supply of land and the cost of acquiring it and land is a basic ingredient of housing supply, the availability of land will affect the cost of housing and the price for the consumers. It will also affect the supply elasticity of housing and hence the reaction of housing supply to house price increases. The availability of land for housing can be physically limited (scarcity) or can be restricted or expanded by land use regulations. As such can land regulations affect housing supply elasticities and housing supply. Land planning by the state may have a major impact on the availability and price of housing (MacLennan & Gibb, 1993).

Not only housing demand but also housing needs (of those households that may have a need for housing but not have the money to demand that housing) can be addressed by planning. Planning systems typically try to respond both to (aggregate) housing needs and housing demands (Oxley, 2004). For example, land can be reserved to social housing in land-use plans, or the public sector can use powers of pre-emption to acquire land.

### 3.1.3 Communication

Communicative instruments are intended to increase the knowledge of the consumers or to influence their preferences (Baarsma & Janssen, 2007). They assume that the desired behaviour of citizens or organisations can be influenced on the basis of their values and norms, and that behaviour will be adjusted once they are informed about the applicable standards, norms (Fobé *et al.*, 2014). They can include for example sensitisation campaigns, the development of instruments that increase the transparency of the market, formation, training, awareness increasing actions, or the guidance of vulnerable groups. In the repressive sense they include propaganda (Fobé *et al.*, 2014).

### 3.1.4 Policies combining different instruments/clustering of instruments

Rather than selecting one instrument, a policy will often combine several instruments (Fobé *et al.*, 2014). In response to one (complex) policy question, there can be many policy measures implemented and they cannot always be disentangled easily as resorting under one of the categorisations (finance-regulation-communication or stimulative-repressive). Often there is main instrument which is supported by other instruments. For example social housing is typically a combined measure as it concerns finance, but also regulation and often also communication (in the form of guidance).

#### 3.1.4.1 Social housing

In the first part of this paragraph on social housing, we discuss some definitions and principles of social housing based on the work by Scanlon, Whitehead and Fernández Arrigoitia (2014). In the second part we discuss the social housing subsidies.

##### a) Principles of social housing

Social housing can be very different in the so-called welfare states of Europe. Some governments originally considered it as a mechanism to provide housing for all types of households while others provided only for low-income households. In Southern European countries the emphasis was on supporting family provision of housing hence owner-occupation (Scanlon *et al.*, 2014). There is also a distinction to be made after the post-war shortages were resolved, namely by those countries that wanted to withdraw from providing social housing and those that did not. The similarities between countries lie in who lives in social housing, the organisation of social housing and the financing of it.

**Ownership** of social housing (Scanlon *et al.*, 2014) is typically public (municipalities or companies owned by municipalities) or (private) non-profit (housing associations). Private providers of social housing usually have a not-for-profit purpose but can include for-profit (or limited-profit) providers. Provision under the form of cooperations also exists (for example in Denmark, Vestergaard & Scanlon, 2014) (the whole stock in Denmark is under the form of non-profit housing associations). Germany is an exception in the ownership characteristics of social housing in that it is mostly provided by private landlords. Alternatively, private owners can decide to rent out their property at reasonable prices via a (private) social rental agency which may offer some guarantees to the private owners in return (for example in Belgium, see De Decker & FEANTSA Housing Working Group, 2012; De Decker, 2002). Also Spain is exceptional where social housing mainly exists under the form of subsidised owner-occupation (Alberdi, 2014). There has been a move away from public ownership to non-profit private ownership, on the one hand to relief pressure on public budgets and on the other to improve efficiency and responsiveness to residents.

**Rents** in social housing (Scanlon *et al.*, 2014) are typically below-market (private sector) rents. Sometimes the differences between social rents and market rents can be large but sometimes they are zero, for example where rent controls apply to both the social and the private sector, or a combination of both where market rents are only allowed to exceed social rents by a predefined margin. In most



cases households can remain in the social house, once they are allocated one, even when their income later on exceeds the income ceiling or their family size decreases. At the moment in the UK, the government is considering (or into effect already?) to abandon this principle and will introduce limited-term tenancies. Moreover, also the housing benefit (=housing allowances for tenants irrespective of the sector and owner-occupiers) is likely to change so that a household can be forced to move if they are overconsuming housing (living in houses that are too big).

A distinctive aspect of social housing is how allocation is organised. **Access** is usually reserved to households with well-defined socio-economic characteristics so an administrative allocation model is used. Most countries use formal income ceilings or use criteria that have a similar effect. So access is limited to lower-income households (otherwise, if allowing access to middle- and higher-income households, social housing would be conflicting with the EU competition law; Scanlon *et al.*, 2014). Rather than letting consumer choice and effective demand allocate the available stock via the market, the applicants' socio-economic situation enters the allocation process. Housing is then allocated on the basis of need rather than demand. Several models are in place. A problem of an administrative allocation process is that many of the allocation models deny individual choice and that there are far more households eligible than the number of households that can be served by the social housing stock. The number of eligible households who are willing to live in social housing often exceeds the capacity. Different rationing methods can be used but the most typical is the (long) waiting list. Sometimes certain type of households are given priority such as homeless persons, families with children, disabled persons or elderly, and sometimes there are mechanisms of insider information or of side-payments.

Oxley (2000) writes that 'efficiency can be promoted by making decisions (the production decision and the allocation decision of social housing) more responsive to household preferences. Effective means for the expression of preferences should thus be an important part of the institutional arrangements for the supply of housing'. A form of social housing allocation models which respects individual choice are the choice-oriented models (see Oxley (2000, p. 25) such as the model of choice-based lettings and the Dutch Delft system (Kullberg, 1997, 2002) which does not have waiting lists.

#### b) Subsidising social housing

In the case of social housing the government subsidy goes in principal to the providers of housing. Government support for providing social housing can for example entail direct grants, or subsidies for the acquisition of land, the construction and the management of provision of housing. Usually the instrument is affected by regulatory policies and are dependent on personal characteristics of those that occupy the housing (Oxley, 2004) and often but not always on letting at below-market rents. The subsidy in rent affects the cost of housing on the demand-side. This makes social housing actually a combination of supply- and demand-side subsidies.

The social housing sector can be large (for example in the Netherlands, the United Kingdom or Austria; Scanlon *et al.*, 2014) or very small (for example in Ireland, the Czech Republic, Germany, Hungary or Spain; Scanlon *et al.*, 2014) but in many countries it became more residualised over the years. Government cutbacks and EU competition rules have namely forced governments to target social housing more and more towards the most vulnerable households (Scanlon *et al.*, 2014). Currently, the financing and design of social housing is debated in many European countries. The efficiency of social housing is often a point of discussion as well as the type of its providers and its consumer orientedness.

### 3.1.4.2 Homelessness policies

Homelessness can apply to a range of housing situations going from rooflessness, over houselessness, to insecure and inadequate housing (see ETHOS typology by FEANTSA).<sup>7</sup> Generally, as there is a strong association between low income, poor housing and homelessness (Oxley, 2000), a policy goal ensuring access to permanent housing for all, should be effective both in preventing the loss of accommodation and in ensuring access to permanent accommodation (also after having become homeless). The effects of wider housing and direct homelessness policies can be very diverse and their relative effectiveness (on homelessness) hard to compare (Busch-Geertsema *et al.*, 2014). Both the effect of policy (housing policies and specific homelessness strategies but also welfare and health policies) and the effect of different contexts are hard to measure if it is not clear what exactly is meant by homelessness and how it can be compared over different countries. Therefore definition clarity is essential.

Housing policies ensuring access to housing and affordability, and specifically policies directly aimed at preventing evictions, have an important role to play in preventing homelessness. Also the welfare system seems to affect homelessness outcomes (see further).

Direct homelessness policies can be either preventive or curative. Preventive measures are preferred options. Once a person or a family becomes homeless, the costs (financial and mental) of re-integration rise sharply (EC, 2013). On the curative side, there is a difference between short-term policies and long-term policies. Short-term policies include the provision of emergency accommodation (and other services such as access to health care). Long-term policies include for example the currently very popular and effective Housing First model. In contrast to the staircase model where permanent accommodation comes at the end of a trajectory of transitory accommodation, permanent housing is offered immediately. This seems to show better results than the staircase model.

Homelessness can also be affected by other housing policies. Housing policies can have an indirect effects on homelessness in its different forms. Even though the aims of policy can be right, by the choice of its instruments the government can create unwanted effects (resulting in government failure and the need to correct the instruments). The effects of creating excess demand through reduced prices or rents (and when supply is not following) can be lack of housing quantity (overcrowding) or even homelessness while insiders of the system can consume too large quantities (undercrowding). If such a policy comes together with the fiscal policy of supporting mortgage interest tax relief mostly benefitting those who would be able to become owner-occupiers even without the policy, there are even more undercrowding incentives. Additionally, with its capitalisation effects, it even makes it harder for households with low incomes to afford its own house. In a situation with both undercrowding and overcrowding, many households living in substandard quality housing and increasing homelessness, the housing stock can be misallocated (see conclusion Barr, 1993, on the UK housing stock situation at that time, but it still holds for many European countries at this time as well).

### 3.1.4.3 Non-financial help

The existence of a housing need and the inability to turn it into effective demand, may not only be due to insufficient income or limited access to credit. Some persons may not understand the working of the market or may not be aware of the existence of a subsidy or, if they do, take-up may be low due to complex subsidy design.

*'Many households fail through ignorance or complexity of the provision to claim financial benefits to which they are entitled. They may need other than financial help to exercise effective demand.'* (Oxley, 2004, p. 192)

Some households may need guidance in finding a house, in maintaining it and paying the costs for it, and in not being evicted from it. Especially social housing is well-known for its not-financial services

<sup>7</sup> ETHOS Typology on Homelessness and Housing Exclusion, see: <http://www.feantsa.org/spip.php?article120&lang=en>

A specialist version of ETHOS, known as ETHOS Light, also exists. It is a less complex version, which was developed to make its use in surveys and statistical research more standardised and comparable. See categories on p. 22 in Busch-Geertsema *et al.* (2014).

(‘no-brick no mortar policies’ discussed for example in Oxley, 2000). Also social rental agencies are known or chosen for their intermediary role between the owner and the renter. This type of demand-side support may also be important in the prevention and solution of homelessness. But it is not always clear if it resorts under housing or social welfare policy (Oxley, 2000).

### 3.1.5 Innovative instruments

As it is not the aim to discuss all existing instruments, the overview above leaves many instruments or designs undiscussed. However, in this last paragraph on different types of policy instruments, we want to touch upon some of the innovative instruments that are being explored or introduced in Europe recently. Most of these initiatives are bottom-up or community-led instruments.

#### 3.1.5.1 Social rental agencies

Social rental agencies (SRA’s) are non-profit housing institutions acting as a mediating agent between the private landlord and (poor and vulnerable) households in need of housing (see discussion in De Decker & FEANTSA, 2012). The SRA’s lease dwellings and sublet them at affordable rents. The SRA takes over the management of letting the dwelling, negotiates a (lower than market) rent with the owner and guarantees payment of the rent over a long time period and maintains the physical quality of the dwelling. The support of governments can entail for example subsidising the working cost of the SRA’s. As they usually work together with other welfare organisations to assist with other than housing needs for their tenants, the policy is both a financial supply-side and communicative policy. Even though similar types of housing assistance initiatives exist in other European countries (such as Germany, Spain, UK; see overview in De Decker & FEANTSA, 2012) they have not been scaled up to the same extent. At the moment, they seem to be mostly used in Belgium or France, but other countries explore the potential as well, for example Hungary (Hegedüs, Horváth & Somogyi, 2014).

#### 3.1.5.2 Community land trusts

Community land trusts (CLT’s) are already quite common in the USA (with more than 200 operating, Kraatz *et al.*, 2015) and to some extent in the UK (over 80 in 2011, Moore & McKee, 2012). It is considered as a mechanism that can deliver affordable housing. CLT’s are community not-for-profit organisations that acquire, hold and manage land designated to be used by the community. As such the land is removed from the speculative land market. The model entails that the value of the land is separated from the value of the dwelling built on it. Governments can invest in (subsidise) CLT’s by gifting or subsidising public land (see discussion in Kraatz *et al.*, 2015). In se, when governments invest in CLT’s, this tool can resort under a supply-side policy.<sup>8</sup>

#### 3.1.5.3 Co-operatives

In their overview on rethinking social housing, Kraatz *et al.* (2015) mention other options such as co-operatives and self-build models. New co-operatives pool capital together, they form to develop and self-build multi-unit housing projects by-passing a traditional developer (and as such avoiding the marketing costs and profit margin). These building groups (they are most common in Germany) may receive support from the government to facilitate the pooling of groups or to negotiate with architects. But they may also receive preferential access to land, potentially at reduced cost. Since the building group consists only of households that will use the dwellings constructed, this type of support resorts more under demand-side financial or communicative support.

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<sup>8</sup> Until now, there is some evidence of success of CLT’s in the USA (Davis & Stokes, 2009) but evidence of success elsewhere is limited (Moore & McKee, 2012).

Even though this is mentioned under innovative instruments, some countries have a long tradition of housing co-operatives, often considered part of the social housing sector, such as in Denmark (Vestergaard & Scanlon, 2014) and Sweden (Lind, 2014).

### **3.2 Principal questions concerning policy instruments and their design**

As we have seen above, responding to access, affordability or quality goals, and the motivation for policy intervention, can be done by financial, regulatory or communicative measures. The instrument selection process is not always straightforward or transparent. The exact form and design of a policy instrument is another issue where choices need to be made. On these points, theory can offer some insights.

The discussions in the literature are typically on whether it is better to implement demand versus supply side subsidies (see 3.2.1). Issues of (freedom of) consumer choice and tenure neutrality also play a role in this choice. Another issue exists in the design of the subsidies or in the exact way they are implemented: if chosen for demand-side subsidies, the discussion continues in whether this should be tied to housing or not tied to the consumption of housing (see also discussion cash or in-kind 3.2.2). Yet another discussion is whether the subsidy should be universal or targeted and if targeted which conditions should be attached (see 3.2.3): should targeting be based on income (income-dependent), or yet on other household characteristics. With respect to the supply-side, and especially the provision of social housing, the discussion focuses on the issue of whether it should be provided publicly or privately or by for-profit or not-for-profit providers (see 3.2.4). Whether a demand- or supply-side subsidy should rather be direct or indirect (fiscal) is yet another issue and this choice is also related to the distributional impact of instruments used (see 3.2.3.3).

#### **3.2.1 Demand or supply side subsidies?**

##### **3.2.1.1 Advantages and disadvantages of supply- and demand-side subsidies**

The choice between supply- or demand-side subsidies becomes relevant when governments detect a reason to subsidise the cost of housing. Governments can support the demand-side (owner-occupiers and tenants) by contributing to the cost of housing or the government can support the supply side by supporting housing provision (*e.g.* construction, rehabilitation, maintenance, operation) usually with price/rent and allocation conditions attached.

The advantage of a supply-side subsidy is that it has an immediate effect on increased supply (and on affordability). But subsidising the supply-side (and when this involves a subsidisation of the rent/price) also has some disadvantages. The problem is that prices are not kept at their efficient (market) level and housing allocation may involve an administrative decision process (where allocation is based on certain socio-economic characteristics of the applicant) and hence will become less efficient. If consumers face efficient prices, they will make better decisions than administrators because consumers know their own preferences best and housing tastes vary widely over households (issue of respecting consumer choice, see below). But also, if prices (or rents) are inefficiently low, this will increase demand. An increase in demand can result either in an increased supply to a point where the housing stock is larger than efficient (oversupply) or, if supply does not react, in excess demand with waiting lists and reduced mobility as possible consequences.

Obtaining vertical equity by supply-side subsidies is only justified when there are also efficiency motivations for such a subsidy (Barr, 1993) (see discussion above 3.2. and Figure 3.1). Theory predicts that equity aims are best fulfilled via cash transfers (= demand-side subsidy).

Increases in effective demand can also affect the supply of decent housing (see Galster, 1997; Van Hoofstat, 2012) but the extent to which is dependent on the price elasticity of the supply of decent housing (Oxley, 2004).

However, also instruments that increase income have their disadvantages. If the short-term supply-side elasticity is low, which usually is the case, prices will increase too, and most of the benefit will end up with housing suppliers. So there is an issue of who are the effective beneficiaries of the subsidy. Moreover, these increased prices will also affect the unsubsidised households and may cause new affordability problems. So if, due to (short-term) supply inelasticity, the cost of housing implies affordability problems, a price subsidy could also be defended for equity reasons, but should be of limited duration (Barr, 1993).

### 3.2.1.2 Consumer choice

In choosing housing an individual's choice is often restricted. An example where consumers' choices might be strongly restricted is in a particular type of social-renting system which offers a 'take it or leave it' choice only. In combination with long waiting lists, applicants will accept when they are offered accommodation even if it does not fulfil their preferences of locational, neighbourhood, or physical characteristics. Oxley (2000) writes that 'efficiency can be promoted by making the decisions (the production decision and the allocation decision of social housing) more responsive to household preferences. Effective means for the expression of preferences should thus be an important part of the institutional arrangements for the supply of housing'. A form of social housing allocation models which respects individual choice are the more choice-oriented models (see Oxley, 2000) such as the system of choice-based lettings and the Dutch Delft system (Kullberg, 1997, 2002) which does not have waiting lists.

But not only in the social rented sector, also in the private rented sector will some house-seekers experience a restricted choice because there might not be a wide range of accommodation affordable to them, especially not if they are looking in the low price end which is often quite tight (significant excess demand). Policies that promote consumer choice, are often linked to demand-side subsidies. However, promoting consumer choice via demand-side subsidies (only) can only be realised if (affordable) supply is sufficient or supply response will be adequate to satisfy consumer choices:

*'While demand-side assistance aims to support choice in the housing market, the lack of affordable housing options and supply responses can limit the degree to which lower income households can exercise this choice'* (Jacobs et al., 2015, p 47).

Not only shortage but also housing quality is a trade-off to be made. More consumer choice in a cash programme may result not only in lower housing consumption but possibly in lower quality housing too as shows the research by De Borger (1985). He finds a significant increase in the consumption of housing for the participants of an in-kind housing programme (more specifically a public housing programme in Luik, Belgium) in addition to an increase in other goods. The author also calculated that replacing the in-kind benefits with a direct cash grant with the same market value as the in-kind housing programme but offering more choice, would strongly alter the consumption choices of the beneficiaries resulting in a lower consumption of housing and an increased consumption of other goods compared to the situation before the programme. However, there is slight (but inconclusive) evidence that some externalities (namely 'better' housing) related to the in-kind housing programme would be lost.

Also in the owner-occupied sector choice can be restricted by financial or other constraints. Due to problems of access on the private rental market or of credit constraints, households may not be able to rent or buy a good-quality house and may end up buying and living in a low-quality house because they find themselves in a situation where they do not have the (financial) resources left for rehabilitation. This can be described as a distress buy (translation from the Dutch word '*noodkoop*', Meert & Bourgeois, 2005). So here too, the issue of quality is relevant in case ownership is promoted via demand-side subsidies.

The weight a government attaches to consumer choice (and its efficiency increasing effect described above) will also be an element in the choice of housing policy instruments particularly in the decision

between supply- and demand-side subsidies but also, if demand-side subsidies are chosen, whether they should be tied (i.e. to be used on housing expenditures) or untied (see below). Considerations of the sufficiency of supply (response) and the quality of supply will have to be made in order to judge whether the beneficiaries will truly be able to effectualise their choice and whether they end up in decent housing. The element of consumer choice too is linked to the type of welfare regime, with the more liberal or more individualised regimes attaching greater importance to respecting consumer choice.<sup>9</sup>

### 3.2.1.3 Tenure neutrality

One specific characteristic of housing that is not explicitly discussed yet is the existence of different tenure types. Typically, the housing market is divided in the owner-occupied sector, the private rented and the social rented sector. These sectors have different types of providers and different allocation systems. While provision in the owner-occupied and private rented sector is typically private, provision in the social rented sector can take different forms (public, private/non-profit, for-profit; for example local authorities, municipal housing companies, housing associations, cooperatives, or private landlords). Also the allocation systems differ: dwellings are allocated according to market principles and consumer choice in the private rented and most of the owner-occupied sector.

The owner-occupied sector can also be part of the social housing sector where dwellings are sold at below market prices for groups with certain socio-economic characteristics, usually income ceilings; for example in Spain the social housing subsidisation system provides nearly completely owner-occupation rather than rent, fitting in the general housing policy which emphasises home ownership (Alberdi, 2014). In the social rented sector dwellings are allocated administratively based on social and economic characteristics (income and number of children are typical determinants). Consumers signal their demand for a social dwelling by subscribing themselves on a waiting list (although there are systems without waiting lists, see the Delft system of allocation in the Netherlands). In terms of demand and need, social houses are allocated according to need while houses allocated via the market are allocated according to effective demand (Scanlon, *et al.*, 2014). The magnitude of the different tenures (owner-occupied, private and social rented) differs quite substantially from country to country.

In order to reach efficient housing outcomes, there should be tenure neutrality (Barr, 1998; see also Haffner, 2003), but in many policies, either one or the other sector is favoured. Also the importance of this aspect, is influenced by welfare regime types.

### 3.2.1.4 Conclusion

The conclusion on using demand- or supply-side subsidies in case of vertical equity or income problems, demand-side subsidies are preferred since they increase equity and efficiency. However, when the inequities are created due to inefficiency problems, and especially a short-term inelastic supply, there might be a case for supply-side subsidies too but these should be temporarily. Since both demand- and supply-side subsidies have their disadvantages with respect to consumer choice, effective beneficiaries, inefficient prices, etc. the weight attached to these issues by the government, will influence instrument choice. So here we find again the influence of ideology.

## 3.2.2 Cash or in-kind?

If the housing problem relates to not having enough income (equity problem), the question is whether the redistributive policy should be based on cash transfers or through in-kind subsidies.

<sup>9</sup> See for example welfare reform discussions and the move to promoting consumer choice and individualisation in Australia (<https://www.ahuri.edu.au/policy-issues/welfare-reform>, d.d. 05/04/2016).



The definition of in-kind and cash subsidies differs sometimes slightly. In-kind subsidies in the wider sense include subsidies that are tied to the consumption of a specific good. In this case, housing allowances (subsidies tied to housing consumption) are also considered as in-kind subsidies (see for example Fack, 2006). But there is also a stricter definition of cash and in-kind: where cash transfers are person-related (so here 'cash' would include housing allowances) and in-kind include only dwelling-tied provision or property (MacLennan & Gibb, 1993). In-kind subsidies would then typically include the supply of public or social housing or other landlords subsidised to rent to renters at lower than market prices.

Both in-kind dwelling related subsidies as tied housing benefits have restrictive effects on the freedom of consumer choice: if a person receives a cash transfer to cover (part of) his housing expenditures (typically housing allowances are linked to a measure of rent), this person cannot spend this subsidy freely on other goods as with completely untied cash transfers. And if he chooses to consume less housing, the subsidy cannot be spent on other goods since it will also decrease (in the case of subsidies linked to actual rents paid). There are however more degrees of freedom than in the case of strict in-kind subsidies where also the housing location, the type of house and the allocation mechanism is less free.

So when governments subsidise the demand-side, they can supplement the income of those in need of housing thereby stimulating effective housing demand (without tying the income transfer to housing consumption). A supplement of this kind fully respects consumer choice and preferences and allows the market to play its allocating role efficiently. A downside is that they are costly for the government (Boelhouwer & Haffner, 2003). Moreover, the extent to which this additional income effectively increases housing demand depends on the income elasticity of housing demand which is determined by individual choice and preferences for housing relative to preferences for other goods (Oxley, 2004).

With in-kind subsidies or tied subsidies, the government can be certain of, that this additional income will be spent on housing (increasing housing consumption). But then it is not certain how this increases the utility of a person. Since they restrict the freedom of the consumer to spend aid and substitute goods as he prefers in-kind subsidies are not promoted on efficiency grounds (the so-called inefficiency of in-kind subsidies). So if there are no market efficiency problems (which would justify in-kind subsidies), theory suggests that equity aims are best achieved via cash transfers.

However, this inefficiency of in-kind transfers is based on the notion of utility and its link with consumer choice. The inefficiency of in-kind transfers has, both theoretically and empirically, been questioned. In their article on housing assistance Aaron & von Furstenberg (1971) questioned the so-called inefficiency of in-kind transfers of housing by introducing interdependent preferences (between the government and the citizens). So if the government has opposite preferences than the citizens, introducing a cash benefit could lead to a lower Pareto-result than an in-kind benefit (at the same cost for the government). Fallis (1990) actually put this as differences in the objectives of the government. If the government's objective is to raise utility of the citizens, economic analysis concludes that it is better to provide cash than in-kind benefits. However, if the government's objective is to raise housing consumption (as we found as a policy objective due to housing needs in society) things might be different. Assuming that governments care about both utility and housing consumption, Fallis (1990) found that housing assistance (= in-kind/tied aid) could be optimal under certain social welfare functions. Other authors claim that inefficiencies can be smaller when studying multiple in-kind transfers (including housing subsidies) than when studying programmes singly (Murray, 1994).

If governments deem the consumption of (decent) housing too important to allow consumer choice to play its role, so if they assume that consumers do not have enough information about the benefits of decent housing or do not make the right choices, the in-kind alternative may be more appropriate. Traditionally paternalism (together with interdependent preferences where utility also includes other persons' consumption) has justified in-kind transfers (Currie & Gahvari, 2007).

So due to its respect of consumer choice and allowing the market to work, welfare economics theory predicts the superiority of income transfers over in-kind (including tied cash aid) as a form of redistribution (Barr, 1993; see also MacLennan & Gibb, 1993) but there are examples of where in-kind transfers may be optimal.

### 3.2.3 Universal or targeted?

For each subsidy, the decision needs to be taken on whether it should be a universal subsidy (such as with the provision of health and education services) or a targeted subsidy. This decision has implications for coverage and cost. When decided for targeting, more decisions need to be taken on how narrow the targeting should be and how the targeting should be designed. All these decisions have effects in the effective incidence of a subsidy and on the distribution of resources.

#### 3.2.3.1 Universal or targeted

If a demand-side subsidy should be used for efficiency reasons, a universal subsidy may be considered, in which case all consumers are eligible. But a universal subsidy is usually very costly.

However, when used to address equity problems, subsidies should be targeted. Unlike with universal subsidies, targeted subsidies will only be provided to a limited group of beneficiaries on the basis of verifiable characteristics such as income, old age, youth, disability (Currie & Gahvari, 2007). In the light of poverty reduction objectives, measures targeted towards the poor (disproportionately or exclusively) are assumed to be more efficient since a unit of input results in a greater level of poverty reduction (Vandenbroucke, Diris & Verbist, 2013). However, Korpi & Palme (1998) stated that the opposite could be true. They found that the more benefits were targeted at the poor only and the more efforts were made to obtain a more equal distribution, the less likely poverty and inequality were to be reduced (the paradox of redistribution). They explained this by introducing the following trade-off: support for social policy in the middle would weaken with greater degrees of low-income targeting, leading to smaller redistributive budgets. Also the model developed by Moene & Wallerstein (2001) shows this effect. This would be an argument in favour of less targeting.

As an example of a universal subsidy, tax relief can be implemented. To assist with the housing costs (but often merely to encourage home-ownership as a favoured tenure,<sup>10</sup> or as a means of protection against poverty, in old age), where eligibility for the assistance holds for all consumers, fiscal instruments are typically used as an implicit demand-side subsidy. Tax relief is typically granted under the form of mortgage interest deductions, in some systems at a fixed rate but in others at the marginal rate. The disadvantage of tax relief measures is usually their income-regressive impact (see distributional impact 3.2.3.3). So when governments will want to target more towards a certain group, for example the poor, regressive universal tax breaks, as in the case of mortgage interest deduction, may not be such a good choice.

Besides causing equity problems (income-regressive impact), efficiency problems may result from subsidisation as well, as Barr (1993) argued in his analysis of the owner-occupied sector in the UK in the early nineties. A first problem is overconsumption which implies under occupation. In this case, households will buy larger or better-quality houses than they would do without the subsidy, resulting in under occupation. Of course, this could be considered having a positive side as well, in that it releases cheaper houses to households with lower incomes. Tax relief for investment in owner-occupied housing will raise the return of housing investments for homeowners over many other forms of saving or investment and draws investment away from other sectors. Another problem may be tax capitalisation. Rather than making housing more affordable, tax relief for owner-occupied housing

<sup>10</sup> Although often not introduced to favour, but introduced based on the investment good 'logic' - the argument that income should be taxed in income tax and costs made to earn that income should be deductible (Bijvoet, 2001), such measures often have evolved toward the favourable tax treatment of the homeowner (Haffner *et al.*, 2014).



will be capitalised into higher house prices, when supply is inelastic, thereby depriving the buyers of the tax advantage favouring the insiders, those that already own and profit from their windfall gain.

Not only with respect to tax relief (indirect financial support), but also with direct demand-side support, the question of targeting or universalism is raised. How selective should a demand-side subsidy be? But besides the demand-side, also support via the supply-side can be targeted or be universal. For example, should social housing be universal or targeted and how narrowly targeted?

Where more universalism has advantages with respect to horizontal targeting (all the eligible persons are reached), the disadvantages are its cost and its impact on prices. While targeting can be more effective, too selective targeting may also lead to lower political support and hence lead to smaller effects (see Skocpol, 1991; Korpi & Palme, 1998; or model by Moene & Wallerstein, 2001).

### 3.2.3.2 Targeting methods

When targeting is used to tackle equity problems, receiving the benefits are usually conditioned on (low) income (they are means-tested) but can also be conditioned on other beneficiary characteristics. When benefits are means-tested they are awarded only when the income of the beneficiary falls below a certain level. The effectiveness of targeting consists in avoiding leakages (the subsidy should go only to those who need it) on the one hand and gaps (the subsidy should reach all who need it) on the other.

Targeting design has implications for a subsidy's poverty relief effects (or its redistribution effects) but also for poverty trap effects and costs. The major objective of means-testing is poverty relief (or vertical redistribution). The greater the correlation between the characteristics on which targeting is based and poverty (income is by far the best correlated characteristic), the more accurate targeting is (Barr, 1993) and the better the subsidy scores in relieving poverty. Income-testing is also very efficient in targeting vertically (the benefit is going only to those in need, i.e. the poor) which minimises the cost of the benefit. However, there are some disadvantages attached to means-testing namely the high administrative cost (of continuously testing incomes) and the labour supply disincentive (because if one takes on a (better) job, one might lose the benefit and be worse off in the short run). This can induce a poverty trap by preventing people from taking on better jobs which could have been a way out of poverty in the longer run.

If on the other hand, the benefit is conditioned on other characteristics (such as having children or age) both the administrative cost and the labour supply disincentive are reduced but it may not have such a large effect on existing inequities due to income inequality.

A problem attached to targeting in general might be that needy groups do not apply because of lack of information, the complexity of applying or the stigma attached. The design of the subsidy and how it is targeted are basic ingredients in designing (more) effective subsidies. Moreover, the effects of a certain policy may also stretch beyond the targeted group.

### 3.2.3.3 Distributional impact of housing policies

Housing policies can have distributional implications both on income but also on asset-wealth.

The distributional impact of the mortgage interest tax relief for owner-occupiers has often been criticised; especially, when tax relief is granted at marginal rates, the benefit ends up proportionately more with the middle and higher income groups than with the most needy lower income groups and targeting of the marginal buyer is likely to fail (Oxley, 2004). The lower socio-economic groups face namely two disadvantages: 1) they have a lower chance to receive credit (due to unequal access to mortgage finance) or 2) they will not receive as large a benefit since they face lower tax rates (in case of tax relief at marginal rates) and/or have smaller mortgages, both of which make tax relief largely income-regressive.

Other measures to encourage home ownership can be introduced, such as the partial or full exemption of capital gains or imputed rent from being taxed. But any tax relief will have an income-regressive impact, *ceteris paribus*, when it favours higher-income groups (Oxley & Haffner, 2010).

Such an effect can be softened with caps or time limits. A regressive impact can be prevented when taxation increases in proportion to the value of the dwelling.

Additionally, due to the fact that housing is not only a consumption good but also an investment good with a large effect on household wealth, promoting ownership includes wealth accumulation. Therefore housing should be examined not only in terms of its consumption aspects but also in terms of its investment potential. That housing policies can have a large effect on wealth distribution makes it a complex object when impacts are concerned when designing housing policies. Maclennan & Gibb (1993), in their analysis of the UK housing system at that time, indicated that for example, the UK tax system failed to make this distinction by on the one hand granting tax relief on the first XXX of a mortgage loan but failing to tax the return made to investors in the form of either capital gains or rental income returns. Or another example, if housing consumption is subsidised at the low-income end through rent subsidies, but subsidised via tax relief on mortgage loans for investment in the middle-income end, capital accumulation in the middle-end will actually enforce wealth inequalities with potentially a major long-term impact (see Maclennan & Gibb, 1993).

### 3.2.4 Provision of social housing: public or private, profit or non-profit?

Observations about the relative efficiency of the housing market indicate evidence of market failure and of a need for regulations, minimum standards, and perhaps some form of a subsidy provision. But they do not provide a rationale for public provision (Barr, 1993; Maclennan & Gibb, 1993).

The form under which social housing should be provided, is currently under discussion and has historically moved from public to social (housing associations, private non-profit) and to other private, low- or for-profit. Social housing is in many countries still mainly provided by not-for-profits, often stimulated by state subsidies.

The disadvantages of public or even social not-for-profit housing include that the choice of the consumer is restricted to the location where public or social housing is built and to the type and quality of housing that is publicly or socially delivered. Direct, tied provision by social landlords may mean that social planners fail to recognise changes in preferred commodity bundles over time (Maclennan & Gibb, 1993). Other negative effects associated with public production (and non-profit): lower management efficiency in public sector and if built in large estates there can be effects on polarisation or degradation of neighbourhoods. Oxley and Smith (1996) described how management problems in social housing can manifest itself in arrears, high vacancy rates and disrepair. These problems can in turn be associated with the polarisation of social housing.

Droste and Knorr-Siedow (2014) describe the existence of an increasing virtual social housing system in Germany which is providing safe and affordable housing without the negative spatially accumulative factors that are often associated with estates of *de jure* (traditionally funded) and *de facto* (other access- and rent-regulated) social housing. This virtual social housing is actually market housing (private) where there is an agreement between the landlord and the government to rent out at below-market rents and/or to low-income house-seekers in return for some form of tax relief or security of monthly payment and maintenance (*cf.* SRAs in Belgium).

In their paper discussing market and non-market provision Maclennan & More (1997) challenged the validity of traditional ‘polar’ arguments in support of state or market provision and they stated that there was no *ex-ante* case favouring one system over the other (depending on the conceptual framework used, either the one form or the other for the provision of low-income housing would stand out as the better option; empirics and local context are needed to draw any conclusions on the matter). But they found that in either case, the critical factor in efficient production and management was the *design* of housing delivery systems, encompassing issues such as external efficiency pressures, internal incentives structures, controls over managerial discretion, and organisational structure. The paper then considers key aspects of the so crucial system design. Maclennan & More (1997) point to

five areas that system designers should examine: competitiveness, control of owner/manager discretion, internal incentive structure, hierarchy design, and setting hierarchy/market boundaries. There may be a case for ultimately transferring ownership to other than not-for profit social housing providers, depending on the relative effectiveness of social versus market management, maintenance and allocation of homes. The authors conclude, that appropriately configured (and they make some suggestions for this configuration) not-for-profit producers should be able to operate as efficiently and effectively as profit-making market providers and that not-for-profit producers even may have policy advantages in periods of adjustment to excess demand for housing (because the government has better information and their pricing behaviour (not charging scarcity rents)).

### 3.3 Linking the policy intervention motivations to instruments

In the following sections we present how theory may guide the choice of instruments, and what argues in favour of or against a certain instrument. A theoretical argumentation for a selection of instruments can be found in welfare economics theory. The strategic housing policy goals (for example affordability) and the operational policy goals, resulting from the problem analysis (the what-question), can guide the choice of instruments (the how question). Since it are mostly the motivations of market inefficiency and the existence of inequities, where welfare economics theory offers a guide to the choice of instruments, it is those that will be highlighted in this part. So we will apply the welfare economics housing overlay in Figure 2.1 to each of the policy goals. At this point, we do not take into account history, the welfare state system and government ideologies or the potential impact of contextual elements. We refer to Chapter 5 where we investigate the role these elements can play in the choice and effect of instruments.

In what follows below, we start from a strategic housing policy objective and elaborate on possible reasons that may cause a gap between the strategic policy objective and the socio-economic situation, and how the answer to this what-question may guide the instrument choice.

The columns in the following figures make first of all the distinction between market inefficiencies (upper parts) and inequities (lower parts). The following columns indicate which inefficiency or equity problem can be relevant for the goals access (Figure 3.1), affordability (Figure 3.2) and quality (Figure 3.3) consecutively. They are part of the problem analysis: what is causing the access, affordability or quality problem? The column with heading 'What?' is the last step of the problem analysis leading to a concrete problem that needs to be tackled and for which an instrument will be implemented. The last column 'Instrument' suggests which instruments ideally could be used following the theory of welfare economics. We note here that even though the communicative instrument does not Figure in this theory, we do use it in the framework, herewith following the public administration theories where it does have a role.

#### 3.3.1 GOAL 1: Access to housing for all

One of the strategic policy goals is to ensure **access** to decent and affordable housing for all households. Access entails in fact sufficient availability of housing and equal access opportunities for all households. If access is observed as a problem there are households with unfulfilled housing needs. These can be due to market inefficiencies on the one hand or equity issues on the other. Equity issues can be the result of market inefficiencies or can be linked to shortage of or inequality of income. In Figure 3.1 we apply the welfare economics overlay to analyse access problems. This analysis will lead to an operational objective and can be used to select instruments. The instruments suggested by theory are those that will promote efficiency and/or equity best. We present some examples of how an analysis of the access problem can lead to operational objectives and instruments to use.

Figure 3.1 Welfare economics problem analyses aimed to improve access to housing

ACCESS problem analysis				What? =>operational objectives	Instrument F = financial R = regulatory C = communicative
Inefficiencies	Imperfect competition	Unequal power	Slow supply-side response	Construction lags due to lags in securing land, or obtaining permits	R: land-use/planning
				Immigration in an area	F: (temporary) supply-side policies to expand supply* F: interim/emergency policy measures may be required (e.g. to deal with homelessness)
	Imperfect information	Consumers/ producers badly informed about quality	Information asymmetries in complex matching process	Renting: the landlord has better information about the quality of the house while the renter has better information about his ability and willingness to pay and maintain the house; Prejudice-based discrimination	C: information/transparency R: regulation of matching/ search process; regulation of professional institutions involved
		Consumers/ producers badly informed about price	Suppliers have imperfect information about price (and return)	Individual (potential) private landlords often not acquainted with current returns	C: information about returns
	Market failure	Externalities	Private discount rate > social discount rate	Private sector underinvests in quality and quantity	F: general price subsidy
Inequities	Horizontal inequities (Unequal access/ unequal opportunities)	Efficiency assumptions do not hold: imperfect information, unequal power or externalities	Unequal access to credit Discrimination Accessibility	Information asymmetries disproportionately affect weaker socio-economic groups; Discrimination on the basis of socio-economic characteristics; Accessibility problems related to age or disabilities	C: sensitisation/information R: non-discriminatory regulation of access (processes)
				Credit not allocated on the basis of economic considerations but other characteristics	F: offering loan guarantees F: subsidising the interest rate (social loans) F: public loan providers
		Efficiency assumptions hold: shortage of income	Income problem	Shortage of income	F: income subsidies (Cf. affordability)
	Vertical inequities	Inequities linked to unequal income distribution	Unequal income distribution	Unequal income distribution leading to unequal housing distribution	F: income subsidies (Cf. affordability)

\* There are argumentations how supply shortages can be addressed via demand-side subsidies (see later).

### 3.3.1.1 Access gap due to market inefficiencies

Access problems can arise when there is a general shortage of supply (not sufficient housing available), or there is sufficient supply generally but access is unequal or complex (matching problems), or there is a specific shortage of certain types of housing for example a shortage of supply of affordable housing for low-income groups (see also affordability goal). Access problems can be caused by an inefficient working of the market for example in a situation of unequal competition, imperfect information or market failure.

#### **Construction lags => removing barriers for supply to react**

A shortage of supply can arise when there is (temporary) low supply due to slow supply-side response for example when it takes time to secure land or to obtain building and other permits. This leads to imperfect competition. If supply is unable to respond due to land-use restrictions, revision of land-use (planning) may be justifiable (regulation).

#### **Immigration in an area with slow supply response => expand supply (quickly) (in a certain area)**

A shortage of supply can also be created by sudden immigration waves into a certain area which can also create a situation of imperfect competition. If there is a sudden migration wave into a certain area, there may be a (temporary) shortage of supply (exercising pressure on prices), which may justify (temporary) supply-side policies to expand supply. If housing shortages may not be removed quickly interim/emergency policy measures may be required (*e.g.* to deal with homelessness) (MacLennan & Gibb, 1993).

#### **Information asymmetries in matching process => improve transparency and the matching process**

The problem of information asymmetries in the search for housing can make the house match a long process. The buyer/renter does not know certain elements of the quality of the house, but the seller/landlord does and the other way around: the renter knows his own payment and maintenance capabilities better. This problem has been largely solved by the rise of professional institutions involved in the matching process. However, these professions may need to be regulated and the delivery of as much as possible information and transparency may further improve the process.

#### **Information asymmetries in matching process (prejudice-based discrimination) => eliminate prejudice-based discrimination**

A typical case of the above can be prejudice-based (or statistical) discrimination which also boils down to a problem of having the right information. Prejudice-based type of discrimination is based on prejudices towards certain groups: for example prejudices on the ability and willingness to pay the rent and maintain the dwelling can be used to de-select a certain type of renter, while if information should exist on the individual renter, there would not be such a deselection (discrimination based on prejudices/statistical discrimination). Here communicative policies can come in to de-stigmatise persons with certain socio-economic characteristics. But also regulatory measures (of the actors involved in the matching process) may be necessary.

#### **Not a good knowledge of returns => improve knowledge about returns/prices**

Or a shortage of supply can arise in the case of imperfect information (*e.g.* recognition lags if increases in prices are not well-known by investors, potential landlords). If supply is unable or too slow to respond due to information imperfections, communicative strategies can be justified. This can be the case for example if (an increase in) the rate of return of supplying housing is not known by the majority of suppliers. This may occur typically if suppliers are mostly individual private landlords.

**Private discount rate > social discount rate => affect the investment decision of housing suppliers**

Shortage of supply can also arise due to market failure: for example if the private discount rate exceeds the social discount rate, the private sector will underinvest in quantity (and quality) leading to a lower than efficient quantity supplied. In the case of a too high private discount rate, private investors require a higher rate of return on investments than what would be the social rate of return for similar investments. When the private discount rate exceeds the social discount rate, financial assistance in the form of a general price subsidy to assist with housing costs may be justified (general or universal price subsidy for producers/users of the good).

We would like to add a short note with respect to price subsidies. Barr (1993) does not give an indication of the 'side' that actually should receive the price subsidy. We find that 'Price subsidies affect economic activity by changing the slope of the budget constraint facing individuals and firms' (Barr, 1993, p. 80). Later, in his analysis of the UK housing policy system, he gives some examples of price subsidies used in the UK at that time such as the mortgage interest tax relief for home owners and the rent rebates in local authority housing. So in principle it can be such that price subsidies aiming to increase supply can be allocated to suppliers but also to consumers of the good. A subsidy to the supplier will cause the supply-curve to shift to the right while a price subsidy to consumers will cause the demand-curve to shift to the right. The increase in quantity produced and consumed will be the same under both measures as well as the financial cost for the government. But the effect on the market price and which group will receive most of the benefits will be different and dependent on the elasticities of demand and supply for housing (see Annex for a visual explanation).

**3.3.1.2 Access gap due to inequities**

Some of the inequity problems are related to efficiency problems while others are linked to income problems. There can be horizontal and vertical inequities. Horizontal equity can be violated in case imperfect information or unequal power relations affect some groups disproportionately. But shortage of income in certain groups can also create horizontal equity problems. Vertically, an unequal income distribution may lead to an unequal housing outcome situation.

**Market inefficiencies leading to unequal outcomes => addressing inequities**

**Unequal access for weaker socio-economic groups => targeted information/regulatory measures**

When information asymmetries or unequal power relations prevents some consumers from making rational decisions or from enforcing their decisions. In case of information asymmetries a targeted information campaign or guidance measures (towards suppliers or consumers) may be needed. If assumed that households do not misperceive the benefits of housing (on themselves and on others) but certain socio-economic groups do consume housing in a substandard level, this may be caused by enforcement problems. In that case, also regulatory measures may be needed.

**Unequal access due to discrimination => eliminate discrimination (taste-based)**

A typical enforcement problem arises when a certain group is discriminated against (discrimination not only based on prejudices discussed above, but taste-based discrimination). Here, communication might be a tool (to sensitise landlords) or regulation can be the solution (regulation of the search/access process).

**Unequal access to credit => financial measures**

When credit is not allocated on the basis of economic considerations, which is affecting access to ownership for certain groups, financial measures may be applied such as loan guarantees, subsidisation of the interest rate or public loans (see more detail below: 3.3.1.3).



**Unequal access due to income inequalities => support income of households not able to turn need into effective demand**

A situation of unequal access may also be an income problem, in which case either horizontal or vertical equity is violated. This situation may justify income subsidies (will be tackled under affordability).

**3.3.1.3 Link with capital markets and access to credit**

Due to its capital asset nature, the housing market is connected to the financial market and access to credit is crucial for most house-purchasers. Horizontal equity can be violated when credit is disproportionately harder to obtain when a credit-applicant belongs to a certain socio-economic group. Typically, low-income groups may face higher interest rates (which are only justifiable if they objectively pose a higher risk) or may not get credit at all. In that case public intervention in the form of loans or loan guarantees may be justified (Barr, 1993).

**Reduce credit risk of loan applicants with certain socio-economic profile**

If credit applicants with a weaker socio-economic profile face, due to low or fluctuating income, too high interest rates, the government can intervene by reducing the risk low-income groups may pose for private financial institutions (for example by offering guarantees) which will in its turn reduce the cost (interest rate) to obtain credit for these groups.

**Improve access to loans for loan applicants with certain socio-economic profile**

If no access at all is possible, borrowing could also directly be made available publicly at sub-market interest rates through public providers (social loans) (see Oxley, 2004).

**3.3.2 GOAL 2: affordability**

The housing policy objectives also state that housing should be affordable. If problems of affordability are detected they are usually related to shortage of income (horizontal equity problems) or income inequalities (vertical equity problems) but they can also be related to market inefficiencies due to unequal power relations or where shortages of supply lead to prices which are (temporarily) too high. In the Figure 3.2 below we give an overview of the problems that can create affordability problems and the possible instruments to intervene in these situations. Below we give examples how an analysis of the situation may lead to operational objectives and policy instruments.

Figure 3.2 Welfare economics problem analysis aimed to improve affordability of housing

AFFORDABILITY problem analysis				What? =>operational objectives	Instrument F=financial R=regulatory C=communicative
Inefficiencies	Imperfect competition	Unequal power	Slow supply-side response	Construction lags due to lags in securing land	R: land-use/planning
				Immigration in an area/increased demand	F: (temporary) supply-side policies to expand supply F: interim/emergency policy measures may be required
			Landlord-renter relation	House becomes home	R: price setting regulation*
	Imperfect information	Consumers/producers badly informed about quality and/or price	Renters (or landlords) badly informed about objective price/quality settings	Lack of knowledge of price for a house of a certain quality; Lack of knowledge about how much the price should be/increase	C: information/transparency R: price setting/increase regulation
	Market failure	Externalities	Private discount rate > social discount rate	Private sector underinvests in quality and quantity	F: general price subsidy
Inequities	Horizontal inequities	Efficiency assumptions do not hold	Slow supply-side response	Short-term supply inelasticity causing equity problems	F: temporary price subsidy
		Efficiency assumptions hold: shortage of income	Income problem	Shortage of income in certain socio-economic groups	F: increase effective demand of specific socio-economic groups: cash redistribution (in-kind/price subsidy only if efficiency problems e.g. if slow supply-side response causes financial hardship)**
	Vertical inequities	Inequities linked to unequal income distribution	Unequal income distribution	Unequal income distribution leading to unequal housing distribution	F: cash transfers from rich to poor (targeted towards the poor)**

\* Rent control can be used to address affordability where prices are too high or increase too much but due to the potential negative quality and quantity effects this instrument should be handled cautiously.

\*\* In welfare economics, when there are no efficiency problems, cash redistribution is preferred as it respects better freedom of consumer choice, making it less distortive and is utility increasing. However, when decent housing consumption is the government's objective and can be an issue, the choice between demand-side and supply-side subsidies remains.

### 3.3.2.1 Affordability gap due to market inefficiencies

The same efficiency problems that may cause access problems may also lead to affordability problems because when supply is too low, there is an upward pressure on prices. Therefore, we refer to the access case above.

#### Construction lags => removing barriers for supply to react

See above 'access'.

#### Immigration in an area with slow supply response => expand supply (quickly) (in a certain area)

See above 'access'.



**Landlord-renter relation unequal when house has become home => equalise power relations between landlord and tenants**

Problems of unequal power between landlord and tenant, for example where prices can be increased too much due to the fact that a house has become 'home', may call for regulation to solve problems. However, Barr (1993) remarks that the regulation of the landlord-tenant relationship should not take the form of rent control (see below) but of a tribunal which can reduce rents if landlords actually use their monopoly power.

**Not a good knowledge of price/quality => make rent (increase) setting transparent**

To tackle problems of information asymmetries, a system that gives insights in the rent (increase) setting (and the link with quality) may add to market efficiency by empowering the tenant (see for example Winters, 2012).

**Not a good knowledge of returns => improve knowledge about returns/prices**

See above 'access'.

**Private discount rate > social discount rate => affect the investment decision of housing suppliers**

See above 'access'.

In general, when affordability problems are created due to shortage of supply, a supply-side subsidy may seem obvious in order to avoid potential further price increases. However, demand-side options can also act in theory as a stimulator of unresponsive private supply while improving affordability. Van Hoofstat (2012) for example explains how demand-side subsidies could stimulate investment in new housing in a more efficient way thereby also increasing provider neutrality. He discusses (theoretically) a strategy to increase the private stock of new homes via a demand-side strategy. Van Hoofstat (2012) reasons that by stimulating the extra supply of newly built houses for the middle-income groups, more affordable homes for households searching in the lower sub-market will become available. The target group of the subsidy would be the middle-income house purchaser who would, due to the subsidy be able to demand a newly built house rather than one from the existing stock. So this would increase the private supply of houses via a demand-side subsidy and free up more houses for renting. However, this is based on the assumption that there is a trickle-down effect. The existence of a trickle-down effect has not unambiguously been proven.

**3.3.2.2 Affordability gap due to inequities**

Also in the case of affordability problems, the market inefficiencies can lead to equity problems. But even in the absence of market inefficiencies equity problems may exist caused by income problems. Horizontal equity is violated when there is an affordability problem in certain socio-economic groups. Vertical equity is obtained when the distribution of housing is socially and politically supported. However, often the housing situation is inequitable and strongly linked to the (unequal) income distribution, which calls for intervention.

**Short-term supply inelasticity causing inequities => address affordability problems due to temporary shortage**

Even though a price subsidy is not considered the better redistributive tool, Barr (1993, p. 391) states that it may be appropriate 'on equity grounds if short-term supply inelasticity causes financial hardship (though the latter subsidy should be of limited duration)'.

**Inequities due to income problems (in the absence of efficiency problems) => support income/support housing consumption (for certain groups)**

A redistribution from rich to poor can be most efficiently obtained via income redistribution (cash transfers) where individuals are allowed to make their own choices. In this case, it is unknown in beforehand how much of the income transfer will actually be spent on housing versus other goods.

So tackling inequities can be addressed via income transfers or via direct transfers of housing (in-kind transfer via tied demand-side subsidies or supply-side subsidies) when efficiency problems lead to inequities.

**3.3.2.3 Rent level control**

To increase affordability, rent controls have been put in place in the past (mostly in periods with rising rents or rents that were inconsistently linked with housing quality) but regulation under the form of rent control is not uncontested. As discussed before, there are first- and second-generation rent controls (see Haffner, Elsinga & Hoekstra, 2012). Especially first-generation rent controls, which are attractive to the government because they de facto entail a hidden subsidy, from the landlord to the tenant, without the inflationary effect housing allowances may have, are predicted to have negative effects on quality (and in the extreme may lead to slum landlords). Where they act as constraints on revenue rather than on profit, landlords will try to restrict their maintenance and other variable costs, in order to obtain a certain level of profit (MacLennan & Gibb, 1993). Exposing these demotivating effects on the landlords may result in the dilapidation of the stock which may even spill-over to whole neighbourhoods. Besides a possible reduction in the quality supplied, rent control limiting net revenue, may also have demotivating effects on quantity supplied, where potential housing providers might invest in other types of investment promising higher returns.

If the landlords are rich and the tenants are poor, rent control does have a redistributionary effect. However, targeting efficiency is rather low, as both poor and rich tenants can occupy a rent-controlled house, and many of the poor may not have access to one. An often neglected cost of rent-control is due to the allocation process shaped by information flows and costly search (MacLennan & Gibb, 1993).

**3.3.2.4 Affordable housing and planning**

Some land or some houses that potentially could be used for housing construction or inhabitation are sometimes not available on the market. Here planning could be used to make more land and/or houses available (also, land or houses could be made available by taxing their non-availability). Under planning to increase affordability we could find (see Oxley, 2004, *eg*, p151): housing provided at sub-market prices to households on low incomes; the agreement to allocate a proportion of a housing development project to affordable housing. However, the provision of affordable housing through such planning has been controversial (Oxley, 2004). Questions can be raised about the practicality and the efficiency of such a system, and more fundamentally the question has been raised whether it is right to use the planning system in this way to provide affordable housing.

**3.3.3 GOAL 3: Decent quality of the house and neighbourhood**

In this part we discuss the goal of decent quality housing. If we use the welfare economics overlay, inefficiencies with respect to quality may arise from a private discount rate exceeding the social discount rate, imperfect information or spatial externalities. There may also be inequities in the quality outcomes, and they may also be related to market inefficiencies or income problems. We give an overview in the figure Figure 3.3.

Figure 3.3 Welfare economics problem analysis aimed to improve quality of housing

QUALITY problem analysis				What?=>operational objectives	Instrument F = financial R = regulatory C = communicative
Inefficiencies	Imperfect competition	Unequal power	Landlord-renter	House becomes home. Landlord does not maintain properly	R: minimum quality standards (+inspecting, licencing, fining)
	Imperfect information	Consumers/ producers badly informed about quality and/or price or future quality	Renters (or landlords) badly informed about (long-term) effects of investment in quality; Owners/ inhabitants do not have information about the future quality	Lack of knowledge of effects of investment in insulation, or effects of dampness, ...	C: information about effects (and quality norms) R: minimum quality standards
	Market failure	Externalities	Private discount rate > social discount rate	Private sector underinvests in quality	F: general price subsidy R: quality standards (incl. licensing and fining)
			Spatial externalities	Incentives to reduce maintenance on one property affects other properties in (wider) neighbourhood; Quality affected by neighbours' land use	F: gentrification subsidies/ improvement grants/price subsidy to encourage gentrification (price subsidy only if slumtype externalities) R: land zoning and planning
Inequities	Horizontal inequities (Unequal access/unequal opportunities)	Efficiency assumptions do not hold	Enforcement problems of certain socio-economic groups; Information imperfections disproportionately affecting certain households	Some socio-economic groups live disproportionately more in low-quality housing	C: information, guidance, etc. R: enforcement via regulatory measures
		Efficiency assumptions hold: shortage of income	Income problem	Shortage of income in certain socio-economic groups	F: redistributive policies via demand- or supply-side
	Vertical inequities	Inequities linked to unequal income distribution	Unequal income distribution	Unequal income distribution leading to unequal housing distribution	F: redistributive policies via demand- or supply-side

### 3.3.3.1 Quality gap due to market inefficiencies

Shortage of quality can be caused by imperfect competition, imperfect information and market failures.

**Ensuring minimum quality standards**

An unequal power situation where the landlord has incentives not to maintain the quality of the house while the renter will not move because he faces a lot of constraints, may lead to situations of low-quality rental housing. The instrument to address this would be regulation of minimum quality standards which may include a system of inspecting, licensing and fining.

**Lack of knowledge about costs and benefits of low-quality housing => Improve knowledge about quality, on effects and when regulated on requirements**

Another inefficiency leading to lack of quality may be caused by imperfect information. Inhabitants may not know the quality norms or may not apprehend the bad/good effects of low/decent quality housing on for example energy expenditures, health, etc. Moreover, they do not have perfect information about the future quality (for example if the house is destroyed by a fire or other calamity). Problems of imperfect information about quality are usually solved by the market itself (via the existence of valuer and surveyor industries, real estate agents, or other institutions that have developed to provide information on quality). The role of the state is limited to setting minimum standards for these valuation, surveying and housing insurance professions. Communicative instruments can be used to make this information more widely available or apprehensible. Alternatively, regulation can be used.

**Private discount rate > social discount rate => Affect the investment decision of housing suppliers**

A market failure arises when the private discount rate exceeds the social discount rate. If this is the case, the private sector tends to underinvest in quality (or quantity). This efficiency argument may justify financial assistance in the form of price subsidy or may call for regulation (including licensing and fining).

**Spatial externalities due to maintenance problems => Enhance maintenance (in a certain neighbourhood/of a certain type of dwellings)**

Housing quality has negative or positive effects (good or bad externalities) not only on its inhabitants' health, safety or productivity but also on neighbourhoods and wider areas and even on other sectors such as the environment. Due to its spatial fixity and the link with the neighbourhood, a specific type of spatial externalities may arise from the existence of slum landlords. When there are incentives to reduce expenditures on maintenance of his property, the landlord will allow it to deteriorate, which also has a negative effect on the value of surrounding property. Problems of externalities, such as unsafe houses (including fire hazards) posing a threat to their own occupants and their neighbours, can be tackled by regulation of minimum safety and quality standards or by subsidising maintenance. Government can decide to save the houses in a certain neighbourhood by offering gentrification subsidies (for example improvement grants). So to increase both the availability (and affordability) of good-quality housing, or to minimise abandonment, rehabilitation subsidies may be justified in order to stimulate the refurbishment of the rented stock, both for social sector and private landlords. An example of such a programme in the UK was the very large Decent Homes Programme, introduced in 2000, for the rehabilitation of 1,6 million social homes, which resulted in 86% of the non-decent homes being up to quality standards in 2009 (Stephens & Whitehead, 2014).

**Spatial externalities due to land use => Land use considerations**

Housing can also create spatial externalities only to the direct neighbours in the form of affecting the quality of a neighbour's satisfaction with his house by construction on a plot or another form of land use with negative effects for neighbours. So regulation of land use is necessary. This can be in the form of zoning and planning controls.

### 3.3.3.2 Quality gap due to inequities

**Some groups are disproportionately affected by low-quality housing => Enhance the quality/adequacy of dwellings for certain groups**

If lack of quality is due to enforcement problems of consumers with certain socio-economic profiles, regulatory measures may be justified. A specific element of quality may be adequacy which means that the house is adapted to the particular situation of its inhabitant. This is often relevant for the elderly or persons with disabilities.

**Income problems leading to low-quality housing => Support the consumption of decent housing (for certain groups)**

If quality problems are linked to the shortage of income or the unequal distribution of income, redistributive policies are justified, either via the supply-side or via the demand-side.

Following welfare economics, the positive utility effects of free consumer choice plea for the latter where the consumer has free choice on how to spend the additional income while consumption externalities (and 'good' and 'bad' consumption, Barr, 1993) may plea for the latter. Also, as we later will see, the choice depends on whether the government's objective is to increase utility or to increase housing (quality) consumption.

## 3.4 Conclusion

In this part we presented an overview of different instrument types and the principle questions that come up when having to decide on which instruments to implement. Moreover, based on the integration of the welfare economics theories in the public administration model, we presented a possible way to analyse a situation of housing problems and the link with instruments. The analysis of what is causing access, affordability or quality problems may offer a way to suggest instruments that will be most efficient and least distortive. Welfare economics distinguishes first of all between problems of market efficiency on the one hand and inequity on the other. Based on welfare economics' arguments (Barr, 1993), efficiency can be enhanced by regulation, limited (price) subsidies for specific reasons, and by public provision of loan finance or loan guarantees:

1. governments need to regulate the housing market (mainly of professions that ensure transparency, information and insurance in the housing market, quality standards, land use and the relationship between landlord and tenant);
2. subsidising should be as limited as possible and always limited in time, but can be justifiable to address spatial externalities (*e.g.* gentrification goals). Also in case the private discount rate exceeds the social discount rate (leading to underinvestment in housing), a subsidy is justified to stimulate the private sector to invest more in quality and quantity);
3. in case of imperfectly working credit markets, the provision of public loans or loan guarantees is justified.

Equity problems can theoretically best be addressed by income transfers, although there might be some exceptions. When equity problems are caused by efficiency problems in-kind subsidies can be justified. For example, rents can be subsidised if, due to short-term inelasticity of supply and –sudden-increased demand, affordability comes under pressure. However, except for a short-term situation, prices should theoretically not be subsidised. This would avoid problems of waiting lists and under- and overcrowding.

So in welfare economics theory, we do not find an argument for a long-term version of traditional forms of social housing because an allocation of housing by administrative decision at a subsidised price is predicted to be both inefficient and inequitable (Barr, 1993). However, there are some measures to improve the design and form of social housing in order for it to respond better to consumer preferences and to avoid waiting lists.

There are a couple of considerations to be made when designing instruments such as on tenure neutrality, consumer choice, fairness of outcomes and of competition. Both access to different housing tenures and the relative subsidy to different housing tenures is often unequal, so there is no tenure neutrality, resulting in inefficient and/or inequitable outcomes. An income transfer system should be designed to equally apply to all tenures. Furthermore, it should be designed in order to avoid poverty trap effects and respect consumer choice so that households can occupy houses of a type, tenure and location they prefer (Oxley, 2000).

MacLennan and Gibb (1993) put it like this in their still relevant reform agenda for the 1990s:

*'The major challenges are to produce a competitive, efficient and fair system of housing subsidies. Tenure should be de-emphasised as a policy objective and replaced by more explicit concerns about adequacy, accessibility and affordability ... The main form of support should be a redesigned form of income-related housing allowance (with traps minimised) which should be available in all tenures. Where capital grants are required, they should be competitively tendered across all social and private landlords who would be subject to licensing and inspection ... Apply economic principles to subsidy design to a growing use of markets and a restructured, competitive rental housing sector, embracing social and private participants.'*

However, theoretical predictions and ideal choices are often based on assumptions which do not always hold in practice and choices may depend ultimately on the ideology adhered and will be influenced by the specific local, social, political and economic context. In the absence of empirical evidence, adherence to conceptual frameworks, may not offer a solution out of a debate in favour or against alternatives (MacLennan & More, 1997, about state versus market provision).

In the next part therefore, we investigate the empirical literature on the effectiveness and cost-effectiveness.



## 4 | Measuring cost-effectiveness of housing policy

There is a range of instruments available but it is not straightforward which instruments to choose, and which instruments will result in the best ‘value for money’. In many European countries the effects of the economic crisis have led to more cautious behaviour, and cut-backs in public expenditure have led to tighter budget constraints. The requirement of cost-effectiveness has become more explicit. Even though the theoretical arguments of instrument choice can be informative, they are often based on assumptions that do not hold in practice, and do not take into account the particularities of each situation. The housing objective together with the specific motivation for government intervention may lead to a preliminary selection of instrument(s) but context, and welfare type regime and ideology, will also influence the choice.

Empirical effectiveness and cost-effectiveness analysis can further inform the choice. Via an investigation of the empirical literature, we verify whether the effects of certain instruments can be generalised or what the role of characteristics of context and other locational characteristics can be and how they can affect the (cost-)effectiveness.

The results of the empirical evidence is discussed in Chapter 5 while this chapter is devoted to the measurement of cost-effectiveness and the problems involved in Section 4.1. Here we revert back to the public policy approach (Table 2.1 and Figure 1.3). Section 4.2 is devoted to the analysis of housing outcome indicators.

### 4.1 Measuring cost-effectiveness

To measure cost-effectiveness (*cf.* Jonker, 2012) outcomes need to be quantified and compared with government (explicit and implicit) expenditures. This is not a straightforward exercise as also the discussions on the measurement of efficiency of social protection systems suggest (*e.g.* Vandembroucke *et al.* (2013) or Hagemejer (2013); see also Section 1.3).

#### 4.1.1 Data and measurement systems

To measure the effectiveness and cost-effectiveness of an intervention, data are needed, on the inputs, outputs and the outcomes. The outcomes will then have to be compared with the policy objectives. So the availability of data is crucial. Lack of data or of data quality is often a problem in measurement exercises. To be able to make quantitative policy evaluations, countries need to invest in good data collection and registration systems (*cf.* EUROSTAT data collection and registration system for outcome measurement: quality of life statistics, housing statistics, ...).<sup>11</sup>

There are some requirements for good measurement systems. It starts from defining indicators on which the measurement system is based. Good indicators need to meet some technical criteria (De Peuter *et al.*, 2007; Winters *et al.*, 2012): they should use policy theory, they should start from existing measurement practices, they should start from the knowledge of stakeholders, they should measure only one aspect of the object to be measured (specificity), they should be measurable (*i.e.* it should be technically possible to collect the necessary data), they should be agreed (*i.e.* they are based on the

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<sup>11</sup> EUROSTAT's series: 'Statistics explained' builds on its collection of outcome data.



largest possible consensus between the stakeholders), they are relevant for what needs to be measured, they are understandable for the users. Due to the relevance issue it can be necessary to change or revise an indicator but on the basis of continuity too much modification should be avoided.

Concluding, measurement exercises are not straightforward. There are strong data and measurement system requirements and these should be agreed in beforehand (before implementing a policy).

#### 4.1.2 (International) comparability

Another problem can be the comparability of data and of measurement results. This might play a role within countries, but certainly across borders. Incomparability can be caused by data problems. When specific data is lacking (for example on the elements of an agreed indicator), alternative data sources that are available, will be used. However, an indicator that is constructed on the basis of different elements is most likely in comparable.

Besides differences in the data used or in the construction of outcome indicators, also the definition of what a housing subsidy is (Haffner & Oxley, 1999; Haffner, Van den Broeck & Winters, 2014), may not be generalisable across countries, hence also input (cost) measurement is not straightforward. This type of comparability problems can make the potential transferability of policies a complex challenge.

#### 4.1.3 Methods

As mentioned before, to evaluate a policy instrument's effects and costs, the outcomes and the costs need to be measurable. Furthermore, there is the question of the benchmark towards which deviations (in outcomes) need to be measured.

But what matters ultimately in a welfare state is the effect a change in outcome has on utility or welfare of its citizens. The challenge is again how to measure this. There are different ways to measure welfare, and it also depends on what (governments of) the social welfare state aims to pursue (utility of citizens, utility of governments, which welfare measure, etc.). Different alternatives (of what to measure and how to measure) will have to be compared and choices need to be made.

Methods that can be used are, for example performance measurement, social cost-benefit analysis, social return on investment analysis, and more recently the well-being valuation analysis. But also other methods and tools are available (see Kraatz *et al.*, 2015 for an overview). There are alternative efficiency measures that move away from attempting to measure utility, for example measuring opportunity freedom such as the capabilities approach of Amartya Sen (Sen, 2002; van Staveren, 2009).

But even though different techniques for measuring welfare or non-welfare value are available and have been applied (see for example Fujiwara & HACT, 2013; Knapp, 2015), the availability of data remains crucial.

#### 4.1.4 Specific measurement issues in housing policies

Haffner & Oxley (1999) mention that the value of a housing subsidy (input) is not simply measured by the public expenditures or tax concessions. Many of the wider costs are namely very difficult to quantify.

Housing policies can namely have effects in other domains than housing (in Bridge *et al.*, 2003, the causality between housing assistance and non-shelter outcomes is investigated) such as on health, education, criminality, the labour market, the macro-economic environment (including income and wealth distribution, poverty, growth,...) or social cohesion.

Especially with respect to supply-side support, there are bound to be some effects not integrated in narrow cost-effectiveness evaluations, not in the least because the effects often lie in the future

(such as positive effects on neighbourhoods). Additional services (beyond 'brick-and-mortar') provided via the supply of (social) housing can potentially have beneficial effects on preventing evictions, crime, education, labour market participation, ...

A specific problem with measuring the effectiveness of housing policies is the fact that current housing outcomes are also an effect of the past (both the policy and market pasts) and of evolutions in other domains than housing such as the labour market. It is therefore not always clear whether a change in outcomes is attributable or in which degree it is attributable to a specific housing measure.

So the difficulties with cost-effectiveness measuring in housing (Jonker, 2012) are plentiful: there are not only short-term but also long-term costs and benefits, data on the counterfactual (what would have occurred if these policies were not put in place) is missing,<sup>12</sup> which costs should be included, which objectives are taken into account (within and outside the domain of housing), which effects. So not only having good data but also defining the exact costs and benefits are a great challenge (see e.g. Olsen, 2000; Jones & Pawson, 2009; Le Blanc, 2005; Jonker, 2012). Cost-effectiveness measurements in the domain of housing policy seems nearly unmeasurable taking into account the remark by Yates & Whitehead (1998), p. 421:

*'To compare the cost-effectiveness of one with the other requires assumptions about future interest rates, rental costs, dwelling prices, income streams and so on'.*

Given all these problems, many have embarked on measuring the effectiveness (or sometimes cost-effectiveness) of housing policy (instruments), as we will see in the next chapter. Here we continue with an overview of the most typical housing outcome indicators.

## 4.2 Measuring housing outcomes

First of all, the strategic housing objectives need to be translated into measurable and clear indicators by which outcomes can be evaluated. One strategic objective may receive multiple outcome indicators. Also the operational objectives, which resulted from the analysis of the situation, may need some indicators. These are the output indicators. As we saw in Chapter 1, the use of output indicators has been decreasing and the focus is on outcome indicators.

The outcome indicators that are in use in international research are often based on EU-SILC data and Eurostat indicators (see e.g. housing exclusion indicators, Foundation Abbé Pierre & FEANTSA, 2015; used for example in Stephens, Fitzpatrick & Wallace, 2010) but also national or regional data exist. Below we first present some examples of indicators that offer reasonable international comparability for the three housing policy goals (4.2.1). In the following part, we discuss the evidence that exists with respect to the outcomes and indicators (4.2.2).

### 4.2.1 Housing outcome indicators

#### 4.2.1.1 Access to housing

The policy goal 'access to housing' involves ensuring sufficient availability of housing and equal opportunity of access to it. Access to housing is usually the most difficult to measure or there are the least data available to create an indicator that reflects access (problems), especially at internationally comparable level. EU-SILC and similar data do only capture respondents that are in housing and not those without. At the macro-level, the comparison can be made between the supply of housing and the demand for housing, or the change in the supply (mostly new construction) and the change in demand (demographic change and immigration). But not only the general supply is relevant but supply should be adequately responding to the housing needs with respect to space, typology, quality,

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<sup>12</sup> The missing counterfactual is not specific for housing but always an issue when doing policy evaluations.

location, price etc. (Winters *et al.*, 2012). This goal is therefore not so straightforwardly translated into access indicators. Unequal access can be measured by discrimination rates indicating differences in finding private rental dwellings based on socio-demographic characteristics or by analysing waiting lists of social housing agencies; data on those with unfulfilled housing needs living on the street, in institutions or with family and friends is being collected in some cities or countries.

#### **4.2.1.2 Affordability**

Promoting housing affordability is a policy objective found in many countries (Salvi del Pero *et al.*, 2016). The translation into an indicator usually involves some kind of relationship between housing costs and income (see for an overview and discussion of housing indicators Winters *et al.*, 2012). It can be measured for example by income after housing costs (residual income measure) or by a proportion of net income allocated to housing expenditure (rent-to-income measure) or the percentage of households where housing costs are over a certain percentage of disposable household income (housing cost overburden rate). An indicator that expresses problems with paying the rent or mortgage, namely rent or mortgage arrears, can also be considered as well as subjectively reported payment difficulties (but subjectively reported measures do not always describe the real situation accurately).

#### **4.2.1.3 Quality**

Ensuring decent quality of housing can be measured by indicators on physical quality of the house and/or the neighbourhood but norms can differ quite substantially and may depend for example on the climate in a specific country. To offer the possibility for international comparison, housing quality is sometimes proxied by the quantity of housing consumed. It can be measured a space (per person) indicator measuring over-crowding (or 'shortage of space'; see definition in Lelkes & Zólyomi, 2010) or by living in houses that are inadequate to changes in the life course or not adapted to certain disabilities. Over-crowding is typically used in international comparisons as well as the following measure of decency: (severe) housing deprivation (one or more of the following deficiencies in basic amenities: leaking roof, no bath or shower, no toilet, little natural light). Also the presence of dampness (proxied by the presence of leaks or mould) is used.

Not only the quality of the house matters for a person's quality of life and well-being but also the quality of the neighbourhood, the environment the house is situated in (Lelkes & Zólyomi, 2010). Indicators used to measure quality of the neighbourhood tend to be more subjective. Different attitudes towards them, can make them less comparable both across countries but also between individuals within the same country (Lelkes & Zólyomi, 2010). Typical indicators of neighbourhood quality are reported problems of noise from the neighbours or the street, pollution or crime in the neighbourhood, and access to basic services.

Based on their research, Lelkes and Zólyomi (2010) conclude that for policy evaluation objective indicators need to be used together with subjective ones.

### **4.2.2 Observed housing outcomes**

In this part we will present for each of the strategic housing objectives discussed before (ensuring access, affordability and decent quality of housing) and the indicators that are used to monitor outcomes in the different domains, the facts that are available (based on the most recent facts, mostly 2013).

#### **4.2.2.1 Access to housing**

Access is determined by two elements, namely by a sufficient availability of housing and by equal opportunities to use housing. The housing needs of the European countries (in 2013) are presented in an overview compiled by Housing Europe (Tosun, 2013). The housing needs (and the evolution thereof) can be caused by a number of factors such as increasing levels of immigration, demographic

changes (for example ageing populations or splitting households) or economic outcomes (for example rising unemployment levels). The conclusion from this overview was that housing supply is not able to keep up with increasing housing demand. And even in those few countries where there is no housing shortage in general, there appear to be problems in the provision of good-quality and affordable housing for some groups which do not have access to decent housing (see below).

With respect to equal opportunities in accessing housing, evidence exists that some groups may encounter relatively more difficulties in finding a house for example due to discrimination, or due to their income situation or other characteristics. In many European countries discrimination towards certain type of rental home seekers exists, as proves the huge literature on the topic (for example Ahmed, Andersson, & Hammarstedt, 2010, Sweden; Bosch, Carnero, & Farré, 2010, Spain; Baldini & Federici, 2011, Italy; Drydakis, 2011, Greece; Bengtsson, Iverman, & Hinnerich, 2012, Stockholm; Van der Bracht, Coenen & Van de Putte, 2015, and Heylen & Van den Broeck, 2015, for Belgium). Most of the discrimination literature investigates ethnic discrimination but other groups can also be subject to discriminatory behaviour on the housing market, for example based on sexual orientation, gender, family composition, disability, or source of income. Households with low-incomes may face problems in finding a decent house due to either the source of their income on which they can be discriminated or simply because of the level of their income which does not allow them to convert their housing need into effective demand. This goes together with an increasing demand for social housing and social housing waiting lists are increasing rapidly in many member states (Thorogood, 2012).

#### 4.2.2.2 Affordability

With respect to affordability, Eurostat offers statistics for example on the housing cost overburden rate.<sup>13</sup> In 2013, 11% of the EU28 population lived in households spending more than 40% of their disposable income on housing (Eurostat, 2015).<sup>14</sup> Except for Denmark and Sweden, tenants renting at market prices seem to be faced with higher cost overburden rates.

Affordability problems do not only differ between tenures but especially amongst the group of poor households, affordability problems are severe. In 2013, 17% of households in the EU28 were poor (i.e. their income being less than 60% of the national median income) (Foundation Abbé Pierre-FEANTSA, 2015). Where the total population of the EU28 spends on average 22% of their budget on housing, poor households spend on average 41%.

While this share has been increasing since 2008 for the total population of households in many countries, the share has generally been increasing much faster for poor households. This leads to 37% of poor households in a housing cost overburden situation in 2013 (Foundation Abbé Pierre-FEANTSA, 2015). For many countries this percentage has increased since 2008 (or 2010 depending on data availability). So affordability problems (measured by the housing cost overburden rate) are increasing and mostly so for the poor households.

#### 4.2.2.3 Quality

With respect to decent quality, one dimension is the availability of sufficient space. In 2014, 17% of individuals in the EU28 were living in overcrowded houses and this overcrowding rate is higher for those at risk of poverty, namely 30% (Eurostat, 2015).<sup>15</sup> Another dimension of decent quality is measured by housing deficiencies in the area of basic sanitary facilities or the general condition of the house. In 2014, 5% of the individuals in EU28 were declared seriously deprived on housing (on top of overcrowdedness suffering from one to four of the dwelling problems identified) (Eurostat, 2015).

<sup>13</sup> The numbers from EUROSTAT (2014) are based on spending more than 40% of disposable income on housing. Sometimes 30% is used for all income quintiles or 30% for the lower two quintiles and 40% for three highest quintiles (e.g. in Dewilde & De Decker, 2014). Spending more than 40% of household disposable income on housing is considered a situation where household stability is seriously at risk (Foundation Abbe Pierre-FEANTSA, 2015).

<sup>14</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing\\_statistics#Housing\\_affordability](http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics#Housing_affordability) (19/04/2016)

<sup>15</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing\\_statistics#Housing\\_quality](http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_statistics#Housing_quality)

People at-risk-of-poverty suffered relatively more from this problem (on average for EU28 in 2013 they were nearly 3.5 times as likely to suffer from the problem) (Foundation Abbé Pierre-FEANTSA, 2015). Dampness is also a quality problem. In 2013, 16% of households in EU28 lived in a house with leaks or mould. This was 24% for poor households (Foundation Abbé Pierre-FEANTSA, 2015). Already in 2010 (based on data for 2007)<sup>16</sup> poor households were worse off in terms of all objective housing quality indicators so the issue is still a pertinent one.

Housing quality does not only entail the quality of the dwelling itself but also the quality of the neighbourhood. According to the EU28 population there are quite some neighbourhood problems such as noise from neighbours or the street, neighbourhoods affected by pollution or other environmental problems, problems of crime and vandalism, and low access to basic services. Increasing housing polarisation is also observed (Eurostat, 2014).<sup>17</sup>

#### 4.2.2.4 Homelessness

We devote a last paragraph on homelessness as it is the result of a combination of some or all of the three problems discussed above. Homelessness covers a range of housing problems from not having access to housing at all (rough sleeping) to living in an inadequate or insecure housing situation (ETHOS definition).<sup>18</sup> Stephens *et al.* (2010) characterised homelessness as the most extreme form of poor housing outcomes but distinct from the outcomes on cost, quality and quantity.

As we have noted above, poor households or households at risk of poverty are in a worse situation with respect to access, affordability and quality of housing. Already in 2010, Lelkes and Zólyami found that the poor were cumulatively disadvantaged with respect to housing quality and they raised the need for coherent policies for social inclusion. With respect to housing costs relative to income, Özdemir and Ward (2009) found that housing costs strongly affect the risk of poverty and social exclusion. In a number of countries the risk of poverty appeared to be especially affected by housing costs for those living alone and the older age group (65+). So the weaker socio-economic households seem to combine housing problems which may result in homelessness.

Covering a broad 'lack of housing' situations, it is difficult to collect exact numbers on homelessness and to compare them internationally. Not only definitions of homelessness can be different across countries but also the methods and the frequency of collecting data (see Stephens *et al.*, 2010). For quantitative reasons the ETHOS Light was developed which better allows quantitative and survey analyses (see Busch-Geertsema, Benjaminsen, Hraat & Pleace, 2014). Based on this definition, where trend data are available, homelessness appears to be increasing and especially the increase in homelessness of young people is striking and concerning (Pittini *et al.*, 2015; The Foundation Abbé Pierre-FEANTSA, 2015).

### 4.3 Conclusion

The housing indicator outcome discussion show that the housing market is poorly able to serve every household with a housing need equally well. Some persons seem to experience problems in accessing the market completely, or in accessing a house that responds to the minimum quality requirements and affordability. The observed housing outcomes show that housing policy objectives of many countries, which can be summarized in 'ensuring access to decent affordable housing for all', are often not achieved. Hence there seems to be reason enough for government intervention, as well as for a reconsideration of the existing social and housing policy interventions of countries.

<sup>16</sup> A housing quality module was for the first time included in the EU-SILC survey in the 2007 wave of surveys (Lelkes and Zólyomi, 2010).

<sup>17</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing\\_conditions](http://ec.europa.eu/eurostat/statistics-explained/index.php/Housing_conditions) (d.d. 20/04/2016).

<sup>18</sup> ETHOS Typology on Homelessness and Housing Exclusion: <http://www.feantsa.org/spip.php?article120&lang=en>

## 5 | Evidence on the (cost-)effectiveness of affordability policies

How the housing policy instruments truly affect housing outcomes is a crucial question on whether a housing instrument is successful or not and is a basic requirement for it to be cost-effective. Theory can give guidance on which instrument to use under which circumstances but it will not be able to capture each particular situation and effect. Here empirical analysis can provide an additional information source that can be used in the choice of instruments.

Since data are not always available or of good quality, many authors investigate the effectiveness of policy instruments by looking at housing outcomes, and only few made cost-effectiveness evaluations. In a cost-effectiveness evaluation many elements are required such as the cost (but definitions of costs are not always consistent, see Chapter 4) but also all the effects within and beyond housing, in the short and the long term, should be made visible and measurable. This requires not only good data but also good definitions. These are rarely available together.

The subject of the empirical studies is usually not the whole housing policy system but they focus on one or a couple of instruments and one or a couple of goals. If enough data is available, they test the instruments' effectiveness or even cost-effectiveness. Usually they involve only one, sometimes two or a few countries. The results only hold for the countries involved but may give insights into the expected effects of an instrument in similar situations. These studies, which may offer a wide and differentiated evidence-base, may be used to test the transferability of a policy to another country (Oxley, 2001). As such, they can offer a best-practice and comparative guide in the selection of instruments.

Most empirical studies analyse the effects of different housing policy instruments on affordability.

We also investigate the case of affordability to find how the empirical results can complement the theoretical guidelines to improve affordability and how the answer related to the principal questions (for example to use demand-side or supply-side subsidies) can be inspired. Affordability was chosen as focus was needed in the empirical literature research. At the academic workshop (of which a report can be found in Appendix 1), the participants suggested to continue with the affordability goal. As will prove later (see part 2-Chapter 7) it also turned out from the stakeholder consultations that most consensus seemed to exist on the importance of housing affordability.

In empirical research a choice will have to be made on which affordability indicator to use, and this will most often be the residual income indicator or the housing cost (over)burden (see above). Sometimes a poverty measure is used if the objective is to prevent poverty (by improving housing affordability).

When affordability problems are caused merely by income problems or unequal income distributions, welfare economics theory suggests that income transfers work most efficiently (and most equitable). However, when market efficiency problems exist, in-kind subsidies can be justified as well. So here the question on granting subsidies to the consumers or providers of housing (demand-side or supply-side) is relevant. But in specific efficiency cases regulatory or communicative instruments may be better (for example when supply responds too slowly due to lags in securing building permits or because providers are not aware of evolutions in prices/returns).

In what follows below, we focus first on financial instruments and we discuss the role of the (explicit or implicit) objectives, not necessarily restricted to the housing domain, when evaluating the



use of an instrument to improve housing affordability. Also the role of the context is described as well as other specific characteristics of a country or government and their ideology which can be expressed in the importance they attach to consumer choice, tenure neutrality, universality, etc. Next, the regulatory measures and their effects are discussed. With respect to the affordability effects of communicative instruments, we did not come across them in the empirical literature.

## 5.1 Financial instruments

When using financial instruments, the policy-makers need to make a lot of choices, starting with the choice to support the demand-side (or the consumers of housing), or the supply-side (or the providers of housing). When that decision is taken, other questions come up. When deciding to use demand-side subsidies, the following questions are pertinent: should the subsidy be targeted or universal, should it be tied to housing expenditures or untied income support, should it be conditional on the (income or other household) characteristics of the beneficiary, on characteristics of the dwelling or the provider? If supply-side subsidies are used to improve affordability, should these be linked to the type of provider (private, public, not-for-profit or profit?), or the type of dwellings provided, to the allocation system and the characteristics of the inhabitants?

### 5.1.1 Demand or supply side subsidies

The choice between demand- versus supply-side subsidies should be made according to the observed housing problem that is addressed. Is affordability caused by inefficiency problems in the market and the type of efficiency problem, or by inequalities or lack of income? Generally, if there are no market efficiency problems but only income distribution problems, the case for demand-side subsidies is promoted by theory. Efficiency problems causing affordability problems may call for a different response. Housing shortages were typically addressed via supply-side subsidies but it is also shown that demand-side subsidies can create an increase in supply.

#### 5.1.1.1 Shifting importance from efficiency to equity problems

Traditionally supply-side subsidies were chosen to address huge housing shortages (after the destructions of World WarII) and later to improve the quality of the stock. At that time, producer (or supply-side) subsidies were considered more effective in addressing shortage problems than demand-side subsidies (housing allowances) (Kemp, 2007). Supply-side subsidies usually came with rent and allocation conditions attached and aimed to tackle both supply and affordability problems (Oxley, 2007). From the 1970s onwards, due to budgetary pressures, governments aimed at raising households' effective demand. In some countries this was done through giving financial support tied to housing expenditures (housing allowances). So there has been in many countries a relative switch away from supply-side subsidies to demand-side subsidies due to a shift in problem definition: away from production problems (shortages) towards distribution and low-income problems (Oxley, 2004). The more housing has been seen as a problem of distribution and low incomes, rather than as a problem of production, the more has been the emphasis on housing allowances and the less has been the emphasis on object subsidies (Oxley, 2000). Housing allowances can take many forms and names such as housing benefits, housing vouchers, rent supplements or accommodation supplements. Examples are the Housing Voucher system in the USA or the Housing Benefit system in the UK. Housing allowances are not necessarily, but often are, implemented in the rental sector and can take a variety of forms.

In practice, some authors remark that the relevance of efficiency problems in the market has been decreasing (for example Baarsma & Janssen (2007) for the Netherlands, not for housing in particular) and that hence only the equity problems remain. Barr (2004) states in his later books that inadequate housing is no longer a market allocation problem (efficiency) but far more an income-distribution

problem. He writes that what prevents people making efficient choices is no longer a shortage of information problem but a shortage of income problem. So the reason for policy intervention that seemed left, was mainly an equity rather than an efficiency problem, or the inability of households to convert their housing need into effective demand. However, in a very recent study for Australia, based on panel meetings and roundtable discussions with housing commentators, Gurran *et al.* (2015) mention that a lot of the discussion was on market failures. Even though the participants experienced the existence of market failures, the authors do not make any inference on the existence of market failures. They mention the following (Gurran *et al.*, 2015, p. 17):

*'In this context, it should be stressed that much of the intervention in housing and land markets is not addressed at overcoming market 'failures' (per se), but rather aims to achieve better distributional outcomes given the large inequalities in income and wealth which mean that large proportions of the population cannot compete in the market place to achieve adequate affordable housing.'*

From there, Gurran *et al.* (2015) make the link to housing as a merit good, meaning that it is valued by society but not produced by the market at the socially optimum level. The most important housing problem is how to make decent housing available and affordable for people on low incomes.

#### 5.1.1.2 Effects of instruments to expand the housing stock

However, problems of housing shortages are relevant in many countries (housing shortage is a market efficiency problem), especially of decent housing at the low-income end. Both quantity and quality can be an issue for low-income groups, even if the total stock of dwellings increased (for example Yates, Wulff & Reynolds (2004) estimated for Australia a shortage of low-rent dwellings even in the presence of a total growing stock). Also affordability problems seem to prevail widely and are worsening. If affordability problems are caused by a shortage of supply, supply needs to be increased. If the main aim is to mobilise supply (of low-rent dwellings), there is a case for supply-side subsidies, which would be more effective than housing allowances (Priemus & Dieleman, 1999).

Even though supply-side subsidies have been used to address housing shortages, Galster (1997) proves how demand-side subsidies could produce the same rent-reducing and quality improving effect leading to the conclusion that there is no a priori 'best' strategy. His reasoning is shortly explained below. His analysis is applied to a typical housing market with different quality subsegments (example of the USA) and it builds strongly on the existence of these quality sub-segments.

Galster explains first the case of a supply-side scenario (to induce the construction of moderate quality rental dwellings only available for low-income renters). By absorbing some of the renters coming from low-quality dwellings, demand and hence the rents in the low quality-segment will decrease at first instance, with a reduced supply in that segment as a consequence. In the longer run, rents would increase again in that segment so the remaining providers can continue operating. He assumes no effects on prices in the targeted moderate quality private segment as those absorbed would not have had the financial capacity to rent privately in that segment, so they would not affect the demand or rent levels there. So the end result is better quality at an affordable price for those ending up in subsidised housing of moderate quality dwellings. Then he experiments with two scenarios of demand-side subsidies: one in which the beneficiary can freely choose the quality sub-market he rents in, and one in which he is obliged to use the rent allowance in a targeted quality sub-market (meeting both minimum and maximum quality requirements). The first system will result in decreased demand in the inferior-quality market segment and increased demand in the target quality segment which will lead to lower returns in the inferior quality sub-segment (due to decreased rents caused by lower demand) and higher returns in the targeted quality sub-segment (due to increased rents caused by higher demand). As a result, suppliers will react to the changed returns by new (private) production in the target quality segment (upgrading from inferior and downgrading from superior quality market-segments compared to the target segment). In the short run, rents will increase in the targeted quality sub-segment but in the longer run, by increasing the supply, the rents will return



to their original levels. The end result would also be an increased supply in the targeted quality sub-segment which is affordable for the 'new' renters via their housing allowance. But the supply response will strongly depend on the local situation (for example on the nature of the local construction industry and the land markets which includes the regulatory restrictions). In the second case (no quality restrictions attached to receiving the housing allowance) there are two possibilities: the beneficiary of the allowance will move up in quality or he will choose to remain in the low-quality sub-market with reduced housing expenses. The choice will depend on the beneficiaries housing preferences and housing needs. Assumably there will be some in both cases. Rents will decrease in the lower demanded low-quality segment thereby benefitting those that remain there, and rents will increase in the higher demanded moderate-quality segment. By supply reactions, rents are predicted to return to their original levels in this segment too. So with respect to reducing rents and improving housing quality he predicts that in the long run, once the policy-induced changes in the rates of return can have their effect on supply, both the discussed supply and demand approaches would be capable of reaching the same affordability and quality results.

The difference between demand- and supply-side subsidies arises when adding other policy goals. Galster (1997) specifically analyses effects of demand- and supply-side subsidies on minimising the budgetary cost, maximising the benefits for non-recipients, maximising upgrading of substandard housing stock, minimise deterioration and abandonment of existing housing stock and several spatial considerations<sup>19</sup>. Based on the analysis of the effects on these additional goals, he concludes that demand-side subsidies are superior on many of the efficiency and equity grounds. However, he does recognise that context and the selected aims of the policy makers determine the comparative advantages of a certain strategy. This point was proven in the work by Yates and Whitehead (1998) who claimed the superiority of supply-side subsidies with respect to the goals they set up-front and the type of context that exists (see below 5.1.2 and 5.1.3).

Some authors attach the promotion of supply- or demand-side subsidies to the supply-elasticity (see issues of context below 5.1.3). For example, Oxley (2000) writes that 'if the policy objective is more housing consumption and production, this may be achieved more cheaply with public supply if there is significant inelasticity in the supply of housing' (p. 9). More recently, in countries where increasing homelessness and housing shortages together with a non-response of the private sector are observed, the case for a move towards supply-side subsidies may need to be investigated (see de Jong, 2012). For example in Austria, there has not been a shift towards demand-side subsidies and most of the subsidies are still targeted towards the supply-side (especially towards limited profit housing associations). The outcome of the significant supply-side policy in Austria is a large housing stock at reasonable rent supplemented with means-tested benefits for low income groups. This policy has been achieved efficiently at a reasonable cost (Amann, Lawson & Mundt, 2009). Often governments choose for a mix of both types, subsidising both the housing consumers and the housing producers.

#### 5.1.1.3 Effects of instruments on affordability from a household point of view

In the analysis of Galster, the effects are analysed in terms of price and quantity effects, which is a rather macro-view. Stephens *et al.* (2010), in their study on housing exclusion in six European countries,<sup>20</sup> analysed the impact of housing policy instruments on housing outcomes for the poor. So they take a more micro-look at the impact of housing policies focused on the affordability and quality effects on households who receive the benefits rather than on the sector price and quantity effects. One of the outcomes analysed was affordability, measured by the residual income approach (measured by the effect of gross and net housing costs on poverty) and the housing cost burden approach (measured by the proportion of individuals in households with housing expenditures exceeding more

<sup>19</sup> Spatial considerations taken up in Galster's evaluation of housing policy: Minimise negative/maximise positive externalities for existing neighbourhoods, neighbourhood revitalisation, maximise locational choices of subsidised households, economic and racial-ethnic integration, maximise recipient's chances for upward social mobility.

<sup>20</sup> Their study builds on EU-SILC data for 6 countries: Sweden, The Netherlands, Germany, UK, Portugal and Hungary.

than 40% of net income). Their evidence (from the six countries investigated) suggests that social rented housing (supply-side) has modest impacts on affordability. When combined with housing allowances (demand-side) it generates strong improvements in affordability. Besides below-market rate systems of supply-support and housing allowances, they investigated the effect of outright ownership (sub-tenures of owner-occupiers: outright ownership and mortgaged ownership). This proved to have positive affordability effects. However, they also found there was a trade-off with quality effects in countries with high ownership ratios suggesting that its use as an anti-poverty strategy was not unlimited. The effects of housing allowances on affordability were very outspoken. They were targeted towards the poor and had strong effects in the rental sectors, especially in the social rented sector. They concluded that housing allowances were showing the largest impact on housing outcomes (including affordability) for the poor while social rented housing only showed a weak effect on reducing the link between poverty (based on residual income measure) and housing outcomes.

#### 5.1.1.4 Cost-effectiveness evaluations

The conclusion seems to be that there is no straightforward a priori best choice of demand- or supply-side subsidies. None of the effectiveness studies above have attempted to measure the *cost*-effectiveness quantitatively. The results of the studies can give insights for an implicit cost-effectiveness valuation by considering the listed expected effects of the different strategies against their costs. The decision will then depend on how much (positive or negative) weight the different effects will receive.

A quantitative attempt was made for example by Olsen (2009) for the USA, not without its methodological and data restrictions. He found that demand-side subsidies appeared to be more cost-effective in the analysis of alternative forms of housing subsidies to low-income households in the USA. This study did not focus on improving affordability but on making better quality dwellings attainable for low-income households. The programme was directed at low-income households but the outcomes that were evaluated were rather on housing consumption of the same quality housing in equally desirable neighbourhoods under different programmes. So there was no specific conclusion on improvements in affordability besides the assumption that due to the targeting towards low-income households, their affordability of decent quality housing improved equally well under different programmes. Then the cost of the project-based programme was found to be larger to reach the same effect.

However, the effects on non-housing outcomes were not taken into account and the effect on improvements in affordability was not explicitly measured. Costs for non-beneficiaries (for example potential price increases) or for example the cost of keeping track of quality in private rental housing were not taken into account. Moreover, in the Olsen study, the matter of supply shortage or supply reaction was not touched upon assuming that there were equally qualitative units to be found on the private market (which the voucher recipients could rent) as in the subsidised supply. In what remains of this chapter, we can see how other elements may affect the choice of instruments and the cost-effectiveness.

#### 5.1.2 The role of other policy objectives

Galster's main conclusion on the superiority of demand-side subsidies given a range of aims (besides reducing rents and upgrading quality for low-income households), was strongly dependent on the context and the objectives (besides the housing goals) set up-front. It was seriously questioned by Yates and Whitehead (1998) who took not only another context (namely UK, see below) but also another set of policy goals to assess a policy's effectiveness. They do not use the price and quantity responses as in Galster but they use goals that are more directed on the effects on recipient households, social segregation and sociotenuarial polarisation, and a number of macro-economic goals. For each of their goals, supply-side subsidies were found to be superior. Below we discuss some goals which, if they are considered to be important, they might point to one of the two types.

#### 5.1.2.1 Labour mobility

The link between housing tenure and labour mobility has become apparent from empirical research. In this research (for example for the UK: Henly, 1998; Böheim & Taylor, 1999; for the Netherlands: Van Leuvensteijn & Koning, 2000) home ownership has been detected as a potential constraint for labour market mobility.

Yates (2002) analysed the role of housing prices and housing tenure as constraints for labour mobility. She found that if low and moderate income households became home-owners by moving to locations with lower house prices, which is correlated with lower employment possibilities (as was the case in Australia in the time period she investigated), home ownership becomes a constraint in the ability to react to changes in employment opportunities.

So if the link with (labour) mobility is considered as important, there is evidence that suggests that not only ownership promotion but also social housing can discourage mobility (Andrews, Caldera Sánchez & Johansson, 2011). But even rent allowances can hinder mobility if they are non-portable. Portable rent allowances are the better choice if housing policy aims to positively influence labour mobility.

#### 5.1.2.2 Poverty

When the link with poverty is investigated (income-poverty and the affordability of housing are closely linked for low-income households), there seems more a case for demand-side subsidies. Boelhouwer and Haffner (2003) find for example that an income-related rent subsidy system scores well on poverty prevention. Stephens *et al.* (2010) find that outright ownership (but conditional on being low-debt, without a heavy mortgage) is effective in safeguarding housing affordability both generally and amongst the poor. They find that ownership is the only tenure where poverty rates fall after housing costs and can break the link between income and housing outcomes. However, they also found evidence suggesting that there was a limit of it being used as an anti-poverty strategy. Stephens *et al.* further find that housing allowances reduce housing-induced poverty and the proportions of households paying more than 40% of their net income in housing costs. They are especially effective in the social rented sector, (and far less effective in the market rental sector). Social rented housing was found only to have limited effects on affordability but when combined with housing allowances, it was a very effective poverty relief measure. In their investigation of EU-SILC data 2007 (EU15) on the effect of housing allowances on residual income after housing costs, Griggs & Kemp (2012) found that housing allowances had an important income support function, but the impact (on residual income and rent-to-income ratios) differed over the countries in the study and was dependent on benefit generosity.

#### 5.1.2.3 Increasing housing consumption or welfare

If the objective of the government is to increase housing consumption or welfare can also make a difference in the choice of instruments. Fack (2006) who investigated the effects of introducing housing benefits in France concludes that subsidising consumption of a privately provided good (housing) will not be efficient in case of quite inelastic supply of that good. So she states that if the aim is to increase housing consumption, it is better to work directly on housing supply. And if the aim is to increase welfare of poor households, (untied) cash transfers, which give more choice to the households are better and will minimize the price effects.

#### 5.1.2.4 Definition of housing services

Also the definition of housing services can play a role. If the subsidy should only affect housing services in the sense of 'provision of housing at a cost below the market prices' a demand-side subsidy may be the most cost-effective one but if housing assistance is to include a wider range of (social) services, which are often difficult to observe and measure, non-profit housing may be favoured (Fallis, Hosios & Jump, 1995).

#### 5.1.2.5 Spatial considerations or urban policy

As investigated in Galster (1997) spatial considerations can also play a role in the evaluation of instruments. He referred amongst others to the following: improving the conditions in deteriorated neighbourhoods would be easier via supply-side subsidies as they can be more targeted geographically. He concludes that supply-side subsidies may be the preferred strategy for example for maximising renovations and minimising abandonment. On top of that, if a neighbourhood is gentrifying and the low-income tenants would be threatened with displacement, a supply-side approach could be better to ensure affordability in the gentrified area for low-income households.

Also urban policy can be entangled with housing. The following example would rather point in the direction of demand-side subsidies: maximising the locational choices of the housing subsidy beneficiaries so they can respond easily to incentives from cities with respect to job creation or other determinants of city attractiveness. However, the locational choice of beneficiaries of demand-side subsidies can also be restricted if their income or the maximum rent levels attached to the allowance direct the beneficiaries to certain geographical areas.

#### 5.1.2.6 Sustainability

The goal of improving sustainability is also closely entangled with housing quality. For example to address energy sustainability or other durable construction, either the suppliers or the housing consumers can be addressed. A priori it is not obvious which choice would be the best. In all cases, the context is an important element.

### 5.1.3 The importance of the context for the choice of instruments

The specific context should be considered when deciding which instrument will be chosen. The context can namely influence the impact of the instruments. The effective incidence of a subsidy can be different from the intended.

#### 5.1.3.1 Supply elasticity

Especially the housing supply elasticity has large consequences on the effectiveness of housing policies. As Malpezzi and MacLennan put it (2001; p. 278):

*Most housing models, and most policy analysis, hinge on explicit or implicit estimates of the price elasticity of supply of housing: does the market respond to demand side shocks with more supply or higher prices?*

So when governments choose to subsidise the demand-side, part of the subsidy will benefit the housing suppliers through increased prices, the magnitude of which is dependent on the supply elasticity of housing (e.g. Oxley, 2004). The more inelastic the supply of housing is, the more the price of housing will increase when demand is increased (for example by giving demand-side subsidies) and the larger the benefit for the providers of housing, and the larger the disadvantage for non-recipient consumers of housing.

As the supply-elasticity has a large impact on price and supply effects of the subsidies, this needs to be taken into account when interpreting results from subsidy evaluation studies based on a sample from the US. Namely, there is a large difference in supply elasticity between the US and many European countries. In their study on the long-run price elasticity of the supply of new residential construction in the United States, Malpezzi and MacLennan (2001) found much higher estimates for the US than for the UK,<sup>21</sup> suggesting that supply is much more elastic in the US.

So in the USA, a country with good possibilities to increase supply in response of a demand-shock created by subsidising the demand-side (= elastic supply), the impact on affordability may have wider

21 Their estimates were different according to the model they used (flow model or stock model) but in both cases the supply elasticity of the US was above that of the UK (post-war in flow model US' supply elasticity was estimated between 6 and 13 while UK's was between 0 and 1; stock model US' elasticity 1 to 6 and UK 0 to 1, Malpezzi and MacLennan (2001).

effects than only the beneficiaries. But in other countries, in particular those with low supply elasticities as is often the case in European countries, demand-shocks are expected to have price/rent inflationary effects (and low supply effects). This has potential negative affordability effects for non-beneficiaries. As a consequence, when directed at potential owner-occupiers, on top of negative affordability effects, it may have little effect on increasing home-ownership rates, for example in the UK where the price elasticity of supply is low, Ball *et al.* (2010).

Susin (2002) demonstrated that rent vouchers (in the US) indeed increased rents for low-income households. Eriksen and Ross (2015) used the same database as Susin (the American Housing Survey) but another methodology and found that in the short run housing vouchers increased prices for dwellings of average desirability but decreased rents of the least desirable dwellings. The price effects were larger in markets with lower supply elasticities. They found the largest price increases for units with rents close to the maximum allowable voucher rent in cities with an inelastic housing supply. For European studies, evidence of price increases due to housing allowances was found for France. Laferrère & Le Blanc (2004) effectively found for France that rent changes at the dwelling level were higher for new renters who were recipients of housing allowances than they were for new renters who were non-recipients. Also Fack (2006) who uses a natural experiment of housing benefit changes in France, finds that most of the subsidy is captured by the landlords providing housing to low-income households. The price effect is ascribed to the short- and medium-term inelasticity of supply which does not react to the increased demand.

In their literature study on the US comparing the cost-effectiveness of housing vouchers and production subsidies, Khadduri, Burnett & Rodda (2003) state that in a situation where housing vouchers increase housing demand and the supply of housing is inelastic, house prices will also rise for non-recipients. In this case the social cost includes not only the government subsidy cost but also the higher price paid by non-recipients. In such a situation using production subsidies may become a cheaper alternative from the society's point of view. Empirical evidence to support this view is presented in their study but has its weaknesses. However, it is a point to be considered in the evaluation of instruments in situations with low elasticity of supply.

Rental allowances that are linked to the actual rent paid enhance the potential of capitalisation in higher rents. To prevent this distortion of the rents, de Boer & Bitetti (2014) suggest linking the allowance to median or average rents in a region instead of to actual rents paid (see later under subsidy design, 5.1.5.4).

### 5.1.3.2 Demand elasticity

Not only the supply elasticity, but also demand elasticity (both the price and the income elasticity of demand) play a role. Demand for a good is determined by the price that consumers are willing and able to pay for it. Hence the demand for housing is determined by consumer preferences on the one hand and by their financial resources on the other (Oxley, 2004). Its specific characteristics (commodity complexity, durability and locational aspects) make housing quite different from other commodities. It might be difficult to determine what exactly determines the good since it has multiple aspects. Barr (1993) remarks that, due to the fact that housing is such a heterogeneous commodity, there is indeed no single market but a series of interrelated ones. Galster's (1997) theory of housing (quality) sub-markets suggests the existence of many sub-markets rather than one housing market, based on different degrees of quality. Still, holding all other factors constant (for example income or preferences), it is expected that demand for housing will increase when the price for housing decreases and the other way around but to which degree is not predictable. The complexity of housing together with the locational aspects of it, make it difficult to estimate the exact price elasticity of demand for housing (Maclennan & Gibb, 1993).

With respect to the income elasticity of demand for housing (Wilkinson, 1973), estimates lie mostly below unity (then housing is a necessity good) but sometimes above unity (housing is a luxury good). They are always positive (housing is a normal good). So when income increases, the demand for



housing will increase too. Moreover, the income elasticity seems larger for owners than for renters. Wilkinson (1973) also found that income elasticities of the demand for housing are not only dependent on the tenure group, but also on other socio-demographic attributes and on the quality of housing. Also regional variations can be expected.

Affordability concerns are a more acute issue where housing is both a necessity (which is mostly the case) and the demand for housing is price inelastic (Albouy, Ehrlich & Liu, 2014). In that case house prices can continue to increase and will take a larger and larger share out of households' incomes. They find (for the USA) that housing demand is both price and income inelastic.

#### **5.1.3.3 Characteristics of private and social rental stock**

One goal, such as affordability, cannot easily be considered in complete isolation from the other housing goals such as quality. When supporting low-income households with their housing expenses, issues of quality of the units they live in or will move to, are important considerations.

Also issues of shortage of supply or spatial concentration of supply within the price ranges beneficiaries are supposed to find a dwelling, are of importance.

Contextual features that can have consequences for the effect of a policy as listed in Galster (1997) are for example: (1) the characteristics of the existing housing stock, (2) the characteristics of the low-income households to be targeted, (3) the spatial patterns of the private and rented stock into which recipients will move, and (4) the existing geographic distribution and characteristics of distressed neighbourhoods.

Yates and Whitehead (1998), in their response to Galster's conclusion on the superiority of demand-side subsidies, also started from another context (namely UK) where an important difference on the context in both settings was the type of the private sector. The private sector was namely very small in the UK at that time (less than 10%) and consisted mainly of individual landlords renting out one or two properties. This type of landlords appeared not so well informed about the private rental market in general and also were unlikely to increase or decrease the number of properties owned due to changes in the profitability of renting out. Hence the capacity of the private sector to respond to demand-side subsidies (increases in demand and price) needs to be taken into consideration.

One other aspect of the choice between supply-side and demand-side subsidies that can be considered, is the quality of housing. Often, a supply-side subsidy is related to new house construction (of good quality) while a demand-side subsidy involves typically beneficiaries in older housing (possibly of lower quality) (Fallis *et al.*, 1995). In their model where they do consider equal quality and equal rents, these authors find that housing allowances and non-profit housing can be equally cost-effective but the cost-effectiveness is dependent on the efficiency of the sector. For example, a housing allowance will be more cost-effective if the private sector is more efficient in the development, building and management of housing than the non-profit housing sector. But a non-profit housing subsidy can be more cost-effective if monitoring costs are considered. Monitoring costs may include for example monitoring the quality of the dwellings where private landlords would have more incentives than a non-profit housing organisation to hold maintenance costs as low as possible, etc.

#### **5.1.3.4 Link between housing system and welfare state regime/history**

What also plays a role in the choice of instruments, is the importance attached to certain principles which often can be traced to the country's welfare regime. The degree to which a certain standard of living can be assured independently of the labour market is one feature that determines which welfare regime a country falls under (see Esping-Andersen typology). Ideology adhered to has consequences for example for the regulation of the labour markets and the design of social security systems. Fallis, *et al.* (1995) mention that recommendations on the choice of (housing) policy instruments (they discuss the cost-effectiveness of housing allowances versus non-profit housing) is often based on ideological orientation where socialists and social democrats favour the non-profit sector while liberals favour the private sector (so housing allowances). Also typical for liberal regimes is targeting (and

specifically means-testing) of benefits while social-democratic regimes commit to universalism in social security services and attach a high level of conditionality in their benefit system (Stephens *et al.*, 2010). Hoekstra (2003) and Stephens *et al.* (2010) apply this to the housing system which results for example in large production subsidies in a social-democratic system and few in a liberal regime. The latter would rather be characterised by means-tested housing allowances. Also in conservative welfare regimes, the need for means-tested housing allowances is supposed to be lower than in liberal regimes (Griggs & Kemp, 2012). However, in their investigation of countries in the EU15, based on the 2007 EU-SILC data, Griggs and Kemp (2012) found that the highest percentage of households receiving housing allowances prevailed indeed in the liberal welfare regimes, followed by the social-democratic ones. Next were the conservative ones and by far the lowest percentage was found in the Mediterranean welfare regimes (which are labelled as embryonic conservative regimes). When looking only at tenant households, the highest percentages of households receiving housing allowances were found both in the liberal and the social-democratic regimes. Moreover, they found considerable within regime variation in prevalence of tenants receiving housing allowances. So their hypothesis (=higher prevalence of housing allowances in liberal welfare regimes) was only partly confirmed by their data.

Stephens *et al.* (2010) investigated if this link between the welfare regime and the housing system in a country exists. They found that the type of welfare regime is to some extent reflected in the housing system. Liberal regimes (such as the UK in their study) have a significant targeted social rented sector and a targeted housing allowance system but also an important outright-ownership sector. Whereas social-democratic or corporatist regimes have a smaller ownership sector and a large unitary rental system (where the distinction between social and private rental is more vague due to the influence of the social rented housing on private rents). So on the one hand they find some typical features of the housing system in a particular type of welfare regime but they also find differences within regimes. They also bring under attention that policy decisions sometimes are possible only because of the legacy of past decisions, for example with respect to social housing stock. Their conclusion is that the housing system is neither fully independent nor fully dependent on the welfare system and governments can shape their housing policy within their welfare regime context.

Not only the type of welfare regime but also history seems to affect the choice and public support of instruments. This is clearly shown by the analysis of Kemp and Kofner (2010) on the private rented sector in Britain and Germany. In the former, with a small private sector, a commercially viable private rented sector is seen by landlords and policymakers as one that has free market rents and weak security of tenure. In Germany, which has a large private sector, soft rent regulation and strong security of tenure exist. The authors explain this different view by path dependency where history has created some conditions by which contrasting viewpoints on what is vital for a viable PRS have developed and been sustained.

#### **5.1.3.5 Other contextual factors: (regional/economic/housing) market conditions**

Several other factors which affect the risks and costs of housing subsidies, may influence the choice of instruments. Hall and Berry (2006) mention for example the following risk factors for governments offering housing assistance: volatile interest rate movements, inflation, dwelling values, construction and maintenance costs, rental vacancy rates, rental yields, resident income levels and resident unemployment. When governments choose for income-related demand-side support, increases in unemployment or decreases in (low-income) wages could inflate assistance requirements.

#### **5.1.4 Other principles guiding the choice of instruments**

Other criteria that may play a role, and possibly inspired by the welfare regime too, are for example the weight attached to freedom of consumer choice, the importance of tenure neutrality and the importance of vertical and horizontal equity. With respect to these principles, there can be differences between countries, but also between different stakeholders or political parties within a country.

#### 5.1.4.1 Consumer choice

The importance attached to consumer choice can also be a determinant in the choice of an instrument. In more liberal societies respecting consumer choice will weigh more as a criterium to decide on which instrument to use. Narrowed consumer choice is namely a disadvantage of the administrative allocation system that often comes with supply-side subsidised housing. Consumer choice is most respected when subsidising income. Besides offering more consumer choice, demand-side subsidies in the form of housing allowances, are considered less paternalistic than providing social housing (Kemp, 2007).

However, as mentioned before, the critique of narrowed consumer choice related to many allocation mechanisms of social housing could be solved by the design of the way social housing is delivered. For example, by designing the allocation mechanism such that it allows households' to express their preferences, this consumer choice disadvantage can be decreased. Examples of more consumer choice can be found in the system of choice-based lettings originally based on the Delft system (Kullberg, 1997 & 2002), after the city where it originated in 1990. The Delft system is based on advertising vacant properties and matching them with interested tenants on the basis of a matching process between the characteristics of the dwellings and the preferences of the applicants (Oxley, 2000). One of the positive outcomes of this allocation model is the absence of long waiting lists. Jones and Pawson (2009) found the system of choice-based lettings to be cost-effective.

Additionally, the issue of true freedom of choice (when receiving demand-side subsidies) is addressed in Stephens and Whitehead (2014). They claim that even when granted demand-side subsidies consumers do not necessarily have real freedom of choice because of landlord power, the rules by which income related assistance is allocated and the profile of the stock. For example, being restricted by low incomes (even with the subsidy) or by imposed maximum rent values may also restrict the locational choice of demand-side subsidy beneficiaries. Galster (1997) also mentions that the freedom of choice of choice of beneficiary households may be restricted by discrimination.

Attitudes with respect to consumer choice translate into the subsidy being in kind or in cash, tied or untied to housing. Even though theory predicts that a general income transfer will be the most efficient redistribution measure respecting consumer choice mostly, no European country has embarked on untied income transfers to address housing problems so far.<sup>22</sup> Housing allowances (see Kemp, 2007), the most common demand-side support, are nearly always tied to housing. They are usually paid to the consumers of housing but sometimes directly to the landlords.

Here we want to note that, as mentioned before, cash benefits tied to housing are an ambiguous case, as they can be considered as a transfer of cash but also as in-kind since they are tied to a certain expenditure type.

#### 5.1.4.2 Tenure neutrality

Tenure neutrality involves that the choice of tenure is not determined by financial considerations. According to welfare economics theory, a tenure neutral policy is the most efficient, as it will allow households to make the choice which is most suited to their family and economic situation.

The distribution of tenure status (owner-occupation with and without mortgage or loan, tenants renting at market price and tenants renting at below-market price or for free) tilts strongly towards owner-occupation. Based on the 2012 data, Eurostat (2014) reports that 71% of the EU28 population lives in owner-occupied dwellings (27% with mortgage or loan and 44% with no outstanding mortgage or loan), 18% were tenants with a market price rent and 11% were tenants in below-market price rent or free accommodation. There are huge differences between countries.

<sup>22</sup> The latest welfare reform package in the UK includes a transformation of its complex system of benefits, including housing related income subsidies, into a general income transfer, not tied to housing (Stephens & Whitehead, 2014). At the same time, conditions for receiving benefits will become stricter for working-age individuals, both those in the private and the social rented sector. The aim is also to decrease labour market disincentives.



Some countries have relatively high shares of the population living in owner-occupied dwellings with a mortgage or loan. For example in Norway, Iceland, Sweden, the Netherlands and Denmark more than half of the population lived in owner-occupied dwellings with a mortgage or loan. Perfect competition in the owner-occupied housing sector or neutrality between owning and renting require also perfect competition in the capital market which is often not the case. Access to credit can be limited for certain groups of consumers. According to the life cycle hypothesis consumers (for example of housing services) will need to borrow at the start of their life cycle, while this is in practice not always the case. Haffner and van Dam (2011) write that young individuals create less than expected debts to finance consumption at the start of their life cycle. With respect to credit for housing, if the risk of a loan is deemed higher for younger people, the cost of the loan will be set higher or no loan will be granted.

Even though efficiency can best be reached by a tenure neutral housing policy, many policies promote owner-occupation and it is often the most favoured tenure in public housing expenditures.

Frequently there are also differences in treatment (of a loan) between those that borrow to buy a house to occupy themselves or those that borrow to buy a house to let. Gibb and Whitehead (2007) mentioned, in their review of the changes in housing policy in the UK between 1975 and 2000, that the mortgage tax relief had severe implications on tenure choice, because it treated housing as a consumption good in the case of owner-occupation but as an investment good in the case of private renting. In the UK these differences have been sorted out, leading to the growth of the Buy-To-Let programme. Aiming for tenure neutrality, again is a political choice, where the socialist governments (or parties) are more likely to support the social rental sector and the conservative government rather aims to promote home-ownership (example of the UK in van der Heijden, Haffner & Reitsma, 2002). Priemus and Dieleman (1999) mention that the effect of restricting housing allowances to the rental sector also affects tenure neutrality.

#### 5.1.4.3 Horizontal and vertical equity

In the choice of instruments, the value attached to equity can play a role. The issue of comparing demand- and supply-side subsidies in obtaining a certain type of equity (vertical or horizontal) has been investigated. This is closely related to the issue of targeting. Vertical targeting (getting subsidised housing to low-income households) is intended to increase vertical housing equity while horizontal targeting (ensuring equal access to the subsidy for equally eligible households) aims to increase horizontal equity.

For the US, the studies consistently seem to find that demand-side subsidies seem to be more effective with respect to vertical targeting (Sinai & Waldfogel, 2002). In their analysis, tenant-based (or demand-side) housing programmes (referring to the US' Section 8 Certificates and Vouchers) seem to be more effective than project-based (or supply-side) programmes at targeting subsidised housing units to low-income households (measured by increased housing consumption).

The empirical research in the Czech Republic (Lux *et al.*, 2009) and in Morocco (le Blanc, 2005) seems to arrive at the same conclusion. Lux *et al.* (2009) found that (income-tested) housing allowances (demand-side subsidy) were the most targeted at the households in need so their vertical effectiveness was high. However, due to the design of the allowance, the horizontal effectiveness was rather low. This suggests that design of the allowance is a very crucial part. It should be well-thought about in order to avoid poverty traps and reach horizontal effectiveness as well as vertical effectiveness. Lux *et al.* (2009) found that the empirics on supply-side subsidies suggested that these were ineffective at targeting those in need.

A study on the Australian housing policy reforms in 1992 (Waldegrave, 2002) which included a shift from state housing with income-related rents to a universal cash subsidy to state and non-state house renters, concluded that this shift (to cash rather than in-kind) reduced vertical equity while not enhancing horizontal equity (enhancing horizontal equity was the major goal of the reform). The reason (for the reform measures not being able to enhance horizontal equity) was that state and non-

state house tenants were not in equal need before the reforms. So the author concludes that income-related rents for state house tenants do not violate horizontal equity when it is effectively targeted at those in most housing need. Moreover, this policy (of income-related rents for state house tenants), when effectively targeted, will result in an improvement of vertical equity. So even though theory predicts the superiority of income transfers in case of equity problems and demand-side subsidies are found to be able to result in more vertical and horizontal equity, their design is crucial. This also seems to be possible for supply-subsidies when they are targeted at the households most in need and is able to serve eligible households equally well.

#### **5.1.4.4 Fair competition and types of housing suppliers**

Supply-side subsidies are often linked to public or not-for profit social housing providers. However, they can also be directed at private for-profit commercial or individual landlords.

Whereas social housing was typically public in the past, there have been moves to private non-profit and even for-profit provision of social housing. Social housing can currently cover a broad range of providers and allocation mechanisms, unlike in the past where it usually involved state or public provision. Currently, the exact components of social housing differ strongly from country to country (Pawson & Wiesel, 2014). The decrease in the provision of social housing has been extreme in Germany where a lot of the social stock has been demolished or privatised. Social housing subsidies can now be applied for by many different types of providers, including private landlords, in exchange for the imposition of a maximum rent and limiting access to specific (lower-)income groups (Droste & Knorr-Siedow, 2014). The authors call this the 'virtual' social housing system of Germany. Other alternative forms of the social rented sector exist such as the not-for-profit co-operations in Denmark and the social rental agencies in Belgium (De Decker, 2002).

A cost of promoting the social sector locally may be in its potential for crowding out effects. It is namely found, that promoting locally the social housing sector, can have negative effects on private supply. For example in Finland, where at the local level the social sector is strongly stimulated, Helsinki reduced the land cost for social housing by 40%. De Boer & Bitetti (2014) find that this system directly crowds out the private rental sector in locations where it would otherwise be profitable to build private rental housing.

Another critique of public provision has often been related to governance problems. However, with respect to lower governance efficiency of social housing, MacLennan and More (1997) argue that there is no a priori conclusion on the superiority of market or state provision of housing (or social housing in general). They state that the critical factor in efficient production and management is the design of the housing delivery systems. Appropriately configured not-for-profit producers should be able to operate as efficiently and effectively as profit-making market providers. Stephens and Whitehead (2014) on the other hand, do mention that according to evidence the administrative/bureaucratic governance mechanism creates higher management and maintenance costs than a market governance system because there is not the same incentive to minimise costs.

As MacLennan and More (1997) mentioned, the design of the system is crucial. There is evidence for example that the not-for-profit sector in the Netherlands, which does not receive direct public subsidies and offers accommodation at a rent equal to cost-price, may survive in the long-term. Moreover, the Dutch case may be an example of a unitary rental market rather than the residual model of social housing (Elsinga, Haffner & van der Heijden, 2005).

Efficiency can be promoted through competition. This competition could be between a variety of housing providers both profit and non-profit. So the supply of housing can be promoted by government support of a variety of housing suppliers (Oxley, 2000). These can include private sector firms, individuals and non-profit enterprises receiving subsidies in return for complying with quality standards, keeping rents within specific limits, and adopting allocation policies which give preference to households with low incomes.

### 5.1.5 The design of the subsidy

Decisions on the design of the subsidy will have to be made in order to minimise negative effects or maximise positive effects of the subsidy. Negative effects can involve work disincentive problems when demand-side subsidies are linked to income, or the inflationary effects when demand-side subsidies are linked to rents and supply is inelastic; but also the level of universalism or targeting can have negative effects (for example with respect to equity) and should be considered when designing the subsidy. Maximising positive effects involves for example good targeting procedures and ensuring the highest possible enrolment. Andrews *et al.* (2011) investigate whether housing policies achieve their objectives efficiently and equitably in the OECD. They also look for possible side effects on other aspects of housing markets or on the wider economy. They conclude that the design of housing policies is a crucial element in being an efficient and equitable instrument.

We describe some of the issues below (some issues may have overlapping elements).

#### 5.1.5.1 Universal or targeted?

In all welfare regimes, housing allowances are means-tested (Jonker, 2012) but they have different eligibility criteria, and may be targeted at different groups (such as pensioner households in the Netherlands and Denmark). The preference for universalism or targeting of subsidies finds its base in many countries' welfare regime where the more social-democratic ones prefer universal subsidies and the more liberal ones prefer targeting to those in most need. Targeted (income-related) housing allowances are said to be the most cost-effective where the aim is improving the affordability of decent housing for low-income households (compared with bricks-and-mortar-subsidies to the supply-side) (Kemp, 2007).

Due to its explicit means-testing characteristics, it is not surprising that housing allowances score well in terms of targeting low-income households (for example Lux *et al.*, 2009) and making housing more affordable (see above). In some papers, rather than affordability per se, the poverty impact or income support impact is measured and it is found that housing allowances have indeed a positive effect on preventing poverty (Boelhouwer & Haffner, 2003) and supporting income (Griggs & Kemp, 2012).

Griggs and Kemp (2012) discovered effectively a difference in the level of targeting between the different welfare regimes. They expected to find the highest level of targeting towards low-income households in the liberal regimes but in fact, the greatest level of targeting of housing allowances to low-income households was found in some of the conservative countries (Austria, Belgium and Germany; tested on EU15 countries). However, this test mainly concerned vertical targeting and not horizontal targeting. So even though the existing form of housing allowances seemed to be reserved for the poor in these conservative countries, there are relatively few renters that receive them (not all the poor).

Not only demand-side but also supply-side policies can be targeted and means-tested (rents linked to income). In the OECD, there are typically two social housing models of which one is rather widely accessible and the other more targeted and means-tested (Andrews *et al.*, 2011). Social housing/social rented which through its allocation rules can be conditioned on (low) income (the targeted version), scores also rather well on vertical targeting/redistributive policies (reaching only the poor) (see for example Heylen, 2013) but not so well on horizontal targeting (reaching all the poor). But even in vertical targeting, social rented sectors may not manage to avoid leakages (going to non-poor). In some countries with a targeted social housing sector (which was the case in around half of the cases investigated in Andrews *et al.*, 2011), reassessment of the eligibility of tenants takes place, but in other countries there is no reassessment. The income situation of social renters may have changed since they started renting a specific dwelling and hence, combined with a very secure housing situation, the social sector may accommodate households that would no longer be eligible if they were to apply for new social housing accommodation. In exhibiting both leakages and gaps in targeting, it can actually favour non-needy insiders at the expense of needy outsiders. A disadvantage of highly targeted needs-

based social housing systems can be its spatial segregation effect (Fitzpatrick & Stevens, 2007). So there might be a trade-off necessary between targeting on the basis of need and the prevention of possible concentrations of socio-economically disadvantaged groups (Andrews *et al.*, 2011).

#### **5.1.5.2 Direct or indirect financial subsidies: fiscal measures**

Subsidies can be granted directly but also indirectly via tax benefits to the demand-side (mostly to owner-occupiers) or the supply-side (mostly to providers of rental housing).

On the demand-side, the empirical literature largely confirms what is predicted: the tax benefits (on housing as a capital stock) end up disproportionately more with the higher income households, confirming already existing income inequalities (see for example Heylen, 2013; Lux *et al.* 2009; le Blanc, 2005). Because they often are conditional on getting a mortgage loan, they score low on targeting (towards low-income households), both horizontally and vertically. Moreover, besides the distributional implications, this generous tax treatment can distort the allocation of saving and crowd out other productive investment (Gibb & Whitehead, 2007). Also the potential for it to be capitalised into higher house prices exists (Andrews *et al.*, 2011). On top of being regressive, mortgage interest tax relief policies are not tenure neutral since they allow tax relief on the one hand but do not tax imputed income or capital gains on the other. As mentioned before (see above), Gibb & Whitehead (2007) mentioned the impact on tenure choice when for tax purposes owner-occupation is considered a consumption good while private renting is an investment good.

Tax incentives are mostly directed towards owner-occupancy (Andrews *et al.*, 2011) and there are relatively few tax incentives for letting or constructing affordable rental housing in OECD countries. Tax incentives for the supply-side such as the conditional tax concessions, of the kind as in the USA (Low-Income Housing Tax Credits), that reduce the cost of building for (conditional on) letting to too low-income households, are found to have important impact on the supply of affordable housing (in the USA but also found positive for Australia, Wood, 2001). The policy is very successful in the USA, being a significant source of the additional supply of affordable housing for low-income families. In recent years many of these dwellings have or will become eligible for leaving the scheme but an investigation has shown that these LIHTC dwellings will remain to be affordable even 15 years into the scheme (which was the period of compliance with Internal Revenue Service use restrictions) (Khadduri *et al.*, 2012).

In Europe, France for example introduced fiscal benefits to expand the private rental sector (Elsinga *et al.*, 2007; Hoekstra, 2013) and more specifically the supply of affordable rental units. Some of the tax benefits were admissible for all private investors while others were linked to maximum rents and income conditions. The latter subsidy was of the type ‘conditional supply-side support’ and was called the ‘intermediary rental sector’ (Hoekstra, 2013), with rents somewhere in between the rents in the social housing sector and the high rents in the private rental sector. In his evaluation of the tax benefits, Hoekstra (2013) concluded that these measures contributed to the increase in the production of private rental units. However, the author mentions that it is not clear how many had been produced if the tax incentives would not have existed or to what extent they substituted the production of owner-occupied dwellings. Moreover, it is not clear if this additional production has been realised in the most efficient way. Also, the effects on local housing markets are diverse from small impact to disruptive impacts leading to oversupply and many vacancies. To what extent the supply of affordable housing increased is not clear but, also given that the maximum rents attached are above average market rents, limited. Hoekstra (2013) also wrote that the take-up of the unrestricted tax incentives has been far larger than the take-up of incentives with restrictions according to rent and income of the tenants.

#### **5.1.5.3 Work disincentives/poverty trap**

With respect to demand-side subsidies, housing allowances, there are usually three factors that are included in the calculation of the allowance a household is entitled to. These factors are resources

(usually income but other resources such as assets, savings can be considered), household size or type and household expenditures (including only rents or also ownership costs, with or without for example fuel costs) (Kemp, 2007).

A caveat of means-tested demand-side subsidies is that they go hand in hand with a greater risk of being trapped in poverty (Boelhouwer & Haffner, 2003) by its disincentive to work or work more. Hence the potential poverty trap especially holds for the working-age and working-able population. Therefore, where income-tested rent subsidies are mostly applicable for example to pensioners, the risk of falling in the poverty trap is smaller.

Regarding demand-side subsidies, authors have raised issues of the importance of their design in order to minimise these work disincentives and poverty trap problems (for example Yates and Whitehead, 1998; Priemus & Dieleman, 1999). Also MacLennan & More (1997) tackled this problem:

*‘With emerging evidence of the poverty trap effects of housing allowances and, in some countries, growing socio-economic segregation within rental housing sectors, there is now (i.e. in 1997) a growing need for housing lobbies to demonstrate that producer subsidies may have a role to play in future housing policies as a result of inherent design deficiencies in housing allowances.’*

Lux (2003) writes that, in order to avoid work disincentives and poverty traps, income ceilings attached to the housing allowances should not be too low and the taper not too high. Taper or the rate of withdrawal can be measured as the amount by which the housing allowance decreases with an income increase of one currency unit. In his investigation of central and eastern European countries the taper was around a gentle 30% in most of them (measured in 2003) with the exception of Estonia. At the time of the investigation Estonia had a taper of 100% leading to substantial poverty traps.

With respect to means-testing in the social housing sector, it is also found that highly means-tested social housing sectors lead to less mobile social tenants (Andrews *et al.*, 2011). Also in the social housing sector, reassessment of eligibility criteria with consequences (of higher rents or having to leave the social housing rental unit), can possibly lead to lower work incentives.

In order to decrease labour market disincentives, some policies make the shift from in-kind or subsidies tied to housing to cash programmes in the form of pure income support. But here too, the end result in reality can turn out differently than what is expected by theory and hinges on design. Namely, in their study on the effect of labour supply of participation in multiple cash and in-kind welfare programmes (by single mothers), Bingley and Walker’s (2013) conclusion was pro in-kind programmes despite their ‘inefficiency’.

#### 5.1.5.4 Price effects when supply is inelastic

As discussed before (see 4.2.1.3), demand-side subsidies have the potential to increase prices in cases of inelastic supply. To prevent this, de Boer and Bitetti (2014) suggest that the allowance be designed so that it is linked to average or median (or other percentile rents) in a region instead of to actual rents paid. This would also encourage ‘shopping around’ of renters (Kemp & Kofner, 2010).

For example, currently in England and Germany the housing allowances are linked to the local rents in a certain area. In England the housing allowance was equal to the median or other percentile rent in the area, rather than to actual rents paid. In Germany housing costs are covered totally for adequate homes where adequacy is linked to size and regional rent ceilings.

Fack (2006) suggested that cash transfers should not be linked to either actual or average/median rents but should come as pure income support in order to avoid rent increases. Untied income transfers may namely affect rents to a lesser extent since they will increase housing consumption presumably to a lower degree than tied cash transfers (depending on income elasticity of demand for housing).

Something in between the pure untied income support and a rent and income dependent subsidy is a voucher system where the subsidy is only dependent on income but not on rents (discussed in Winters *et al.*, 2004). This subsidy system allows more consumer choice (but still restricted to housing)



where the household can spend the voucher according to its own housing preferences. But it also has the characteristic that it will not affect prices to the same degree as the beneficiary will search for the better price-quality considerations while this incentive is less present when the subsidy is dependent on the rent. It also improves shopping around.

#### 5.1.5.5 Social housing system design

In the paper by Andrews *et al.* (2011), investigating whether housing policies achieve their aims in an efficient and equitable way, they find that also the design of supply-side subsidies is important. The type of supply-side subsidies they investigate concerns social housing. They use recent data from OECD countries and base their conclusions on a range of econometric analyses. They find that the structure of social housing systems is very different across the OECD countries.

A very important distinction between the different countries is whether social housing is broadly available for all citizens or targeted (and means-tested). In the first, the social housing system operates integrated with the private system while in the latter, the social and the private rental sectors are two separate systems. A point mentioned by the authors is the trade-off that needs to be made between targeting and residential segregation (Andrews *et al.*, 2011). More narrowly targeted systems are directed to the households in most need and hence can achieve their aims at lower costs. Uniform prioritisation systems (between different regions of a country) enhance transparency for eligibility and do not restrict mobility. But on the other hand, the authors mention that a more targeted system is linked to higher spatial segregation (based on Fitzpatrick and Stephens, 2007). Spatial segregation can potentially result in adverse social and economic outcomes for the residents. So the authors conclude that it is important to design the social housing system such that concentrations of socio-economic disadvantaged groups at the neighbourhood level is prevented. Social housing should be well integrated in the urban setting including good transport opportunities and access to services.

Another issue is the reassessment of tenants' eligibility. Only in half of the targeted systems, the eligibility of current tenants is reassessed, and this with annual to five-yearly frequencies. Commonly, when a tenant's eligibility has changed this affects either the height of his rent or his rental contract (termination in case of no longer being eligible). Andrews *et al.* (2011; p. 45) write that

*'Given the potentially rising demand for social housing, frequent reassessment of eligibility with appropriate actions if the household's situation has changed would help to free up social housing for needier households.'*

But the reassessment should occur such that it does not create disincentives for labour market participation.

So within a social housing system, both targeting and being more universal has its advantages and its costs. In any case, prioritisation rules should be uniform and transparent in order not to restrict mobility. And reassessment of eligibility of households can be recommendable in situations where social housing needs to become free for more needy households. And it should be implemented in such a way as not to affect labour market participation. However, and this was not mentioned by Andres *et al.*, this may have its effect on the housing security situation of a tenant. This may then also become some kind of risk element for the tenants (see below).

#### 5.1.5.6 Risk

Yates and Whitehead (1998) raised another interesting point to be considered in the discussion of demand- versus supply-side subsidies with respect to risk. For the recipients of the subsidy, it is not sure whether housing will remain to be affordable when they receive housing allowances. And for the governments, they could be faced with ever expanding housing claims from households eligible for housing benefits. This is closely linked to evolutions for example in the demographic and economic situation of a country.

#### 5.1.5.7 Administrative costs

Another issue, rather practical of nature but linked to targeting, is that targeting the subsidies to the households in need requires good institutional capacity (see for example in UN-Habitat, 2005, p. 88). For example, to identify the households in need who are eligible to receive income-related housing allowances, monthly income-means testing is required. Attaching quality standards to the dwelling that is subsidised with housing allowances will increase the administrative costs and the institutional capacity required even more (Katsura & Romanik, 2002).

#### 5.1.5.8 Participation rates

Not all households that are targeted, will effectively participate in a programme. The households first have to know what they are entitled too, which may require some communication about the subsidies available. But also the extent to which the procedure to receive the benefits is cumbersome, burdensome or stigmatising, considered together with the benefit of the subsidy may affect enrolment rates (and hence effective targeting) (Katsura & Romanik, 2002).

### 5.2 Regulatory instruments

Not only financial instruments but also regulatory instruments can be used to improve affordability either directly affecting rents or indirectly via the planning system. An example of the first is rent regulation. Examples of planning include the planned provision of affordable housing within larger development projects but also how a relaxing of supply expansion constraints may allow increased supply and hence better affordability (through decreased prices).

#### 5.2.1 Rent regulation

Rent regulation of the qualitative aspects of the rent and tenancy contract enforcement (for example the existence of a law system where an individual landlord can be forced to decrease the rent if it is proven that he misused his monopoly power) is theoretically justified in order to reach efficient housing outcomes. However, quantitative rent regulation under the form of rent (increase) controls is predicted to have rather negative effects both on quantity and quality of the housing stock and on targeting.

Some empirical studies are very harsh on rent controls while others are milder. While the justification of the qualitative part of the regulation (efficiency reasons) seems to be confirmed in practice (Cuerpo *et al.*, 2014), the predictions of the negative quality and quantity effects do not always hold. For example in the Netherlands, Germany and Sweden rent controls do not seem to have disinvestment and declining quality effects, while these effects do seem to exist in Portugal and the UK (Stephens *et al.*, 2010). Lind (2015) shows in his theoretical analysis of the Swedish system of rent regulation (with an integrated contract structure on renovation), how in a situation of housing shortage, such a system can create economic incentives to increase the quality of housing units (even more than under a market system). He presents as evidence of this reasoning that there is a higher share of rental apartments in central locations in Sweden that is being renovated compared to countries with market rents. So he concludes that the actual quality effects depend on details of the regulatory framework and the interaction with other housing policy measures.

With respect to targeting low-income households (or redistribution purposes), most studies are unanimous in that rent controls are not a good instrument. For the Czech Republic, Lux *et al.* (2009) find that the effectiveness of rent control is poor. They found that rent regulation was nearly equally applied to needy (poor) and less needy (rich) households. Also the calculated total hidden economic subsidy following from rent regulation, appeared to be especially benefitting the wealthiest and medium-income households. In their overview of rent regulation Cuerpo *et al.* (2014) draw the same conclusion that it is not a good instrument for redistribution purposes.

With respect to affordability, even though the affordability of the renters improves, it is found that the losses incurred by the owners are much larger, resulting in an efficiency loss for society as a whole (Jenkins, 2009). Based on a range of empirical studies worldwide, Turner and Malpezzi (2003) reach the same conclusion with respect to first generation rent controls.

Turning to the milder form of control, the second generation rent control, Turner and Malpezzi (2003) conclude that the negative effects are smaller than in the case of first generation rent control. But Haffner, Elsinga & Hoekstra (2012) describe that also the softer and more popular second-generation rent controls, which in practice often boil down to a regulation of the annual rent increase which cannot be higher than the increase in a certain price index, are criticised based on empirical evidence that points out that the costs of rent control for the landlords are still higher than the benefits for the tenants. Turner and Malpezzi (2003) found large differences in efficiency losses according to the type of the regulatory system. This is also the finding of Arnott (1995) who writes that general conclusions cannot be drawn due to the diversity in the design of second generation rent control systems.

## 5.2.2 Planning for affordability

In the recent investigation by Gurran *et al.* (2015) sluggish new supply is considered a major reason for affordability problems in Australia (perspectives of the participating housing commentators). As acquiring land and acquiring construction permits are crucial in the provision of new supply, the speed at which land and permits can be obtained is an important element. And these are dependent on the planning systems of countries, or local authorities.

### 5.2.2.1 Land-use planning

With respect to the speed of supply adjustment, the housing commentators in Gurran *et al.*'s (2015) investigation expressed their concerns about for example uncertainty and the relationship between housing and infrastructure provision (in the case of new investment). Therefore, effective land use planning processes are crucial to good supply responsiveness (Barker, 2008).

Ball (2011) finds that planning delays play a major role in the slow housing supply responsiveness in England. Land use and zoning restrictions on multi-family construction (typically for rent) can reduce the supply of private rental housing and especially those dwellings for low-and medium-income households (Andrews *et al.*, 2011). Already in 1993 MacLennan and Gibb wrote how planning could affect the supply and price of housing. Hilber and Vermeulen (2015) who investigate the impact of supply constraints on house prices in England find that the English planning system is an important factor in the affordability crisis. So there is quite some evidence that regulations and planning constraints have an effect on housing supply (responsiveness) and house prices.

### 5.2.2.2 Building regulations

Not only land-use regulations but also specificities of the planning process are found to affect housing supply (responsiveness) (for example see: Caldera Sánchez & Johansson, 2011). Both land use and building regulations are found to be important determinants of the housing supply response in the OECD (Andrews *et al.*, 2011). Andrews *et al.* (2011) find for example that housing supply responsiveness is lower where it takes longer to obtain building permits.

### 5.2.2.3 Inclusionary housing

Another side of planning entails not how the planning processes and land-use regulations discussed above can affect supply, but the direct planning to improve affordability. Planning measures can for example be the release of land for new construction or the condition to allocate a proportion of a housing development project to affordable housing (for households on low incomes). In this case, the developer bears the cost for affordable housing by a lower profitability of his project in exchange



for a planning permission. This type of planning is usually organised at the local authority level and is also known under the name of inclusionary housing policies. Where inclusionary housing programmes have been introduced, the strategy has been found effectively used and successful in the delivery of affordable and inclusionary housing in some countries (for example England, Morrison & Burgess, 2014) but less used in other countries (for example Netherlands, De Kam, 2014).

The provision of affordable housing through such planning has been controversial (Oxley, 2004). Not only have questions about the practicality and efficiency of such a system been raised but also the more fundamental question about whether it is right to use the planning system to provide affordable housing. By having a negative impact on the profitability of housing supply projects, it potentially affects the supply of housing negatively.

#### **5.2.2.4 Urban development**

Other forms of planning to improve affordability lie for example in the urban renaissance objectives (Oxley, 2004) to reuse land and buildings with currently low value. This includes for example the promotion of brownfield development or stimulating the use of vacant property or land (*e.g.* creating and living in flats over shops).

#### **5.2.2.5 Limitations to the supply and affordability effects of changing planning systems**

In Australia, New Zealand and England, where policies to increase the supply of housing (in order to improve affordability) included a response via their planning system, Austin, Gurran & Whitehead (2014) found that the success of planning in securing new affordable homes is dependent on the design of the planning system (and the housing assistance approaches). They found that the effectiveness of the planning system in delivering affordable housing depends on consistent and enforceable policy, government commitment, the existence of a mature affordable housing sector and specific market conditions. That market conditions play a role was already demonstrated for Britain by Bramley (1993) who modelled the effect of land use planning (local land release policies) on new private building in Britain. He found that this land release policy had a substantial effect on house-building output but a very weak effect on prices which was due to the openness of local markets. Also Monk, Pearce and Whitehead (1996) demonstrated that, besides the benefits, there were costs attached to this policy. The effect of land-use planning on housing supply and affordability depended on the economic situation: price increases were exacerbated in periods of economic growth and there were no output effects in times of recession. Moreover, they also mentioned that the narrower choice of house types and densities which usually comes with land-use planning measures, limits consumer choice.

### **5.3 Conclusion empirical literature**

Theory can provide insights on the choice of instrument but (implicit) policy objectives and context (including welfare regime and history) are very important determinants of both choice, support and success of an instrument. The empirical literature is not conclusive on which instrument is the best. It depends on the objectives and the criteria used to evaluate the impact. Policy objectives are often multi-dimensional. Hence an explicit prioritising of goals is necessary in order to be able to choose the most cost-effective set of policy instruments. Moreover, indicators will need to be set that allow follow-up of the evolution of reaching the objectives. With respect to affordability, different indicators exist to measure it and according to the indicator used, different conclusions can be drawn.

As empirical results have shown, there are hardly any conclusions that hold generally: not on demand versus supply-side subsidies, not on more or less targeting, not on the housing providers for low-income households, etc. The instruments have their advantages and disadvantages. The context will have to be investigated before making a choice and some trade-offs will have to be made. These trade-offs are often a political or ideological choice.

Also the design of any subsidy is important and dependent on the context (including ideology, type of welfare regime). A policy measure can have different (undesired) consequences in different situations (for example with respect to labour incentives, consumer choices, effectiveness of targeting, social support). Furthermore, empirical findings on (cost-)effectiveness (evidence-based) will always be dependent on measurement at one point in time and especially on the information available at that time. As much as possible information that is available should be used in the evaluation of instruments in order to make the choice transparent.

Based on these observations we can conclude that the choice of a certain instrument cannot be made without setting clear policy aims, without indicating the criteria they are tested against and what the importance of each aim and criterion is. So even though theory and the findings from empirical literature may offer insights in expected effects of certain instruments given the context, and may point to a set of instruments to be used, the final decision will have to be taken by the policymakers and will be influenced by the weights they attach to the different objectives and criteria at play. These will depend on the viewpoints of those involved in the policy preparation process: the housing stakeholders who defend the interests of their members, governments which consist of political parties and researchers who can supply findings based on data.

In the next part we will present the results of the stakeholder consultation on the importance of housing (and non-housing) goals and other criteria in the process of selecting policy instruments.



## - PART 2 STAKEHOLDER DISCUSSION -



## 6 | Stakeholder consultation process

Stakeholder consultation was explicitly included in the project as the stakeholders are important actors in policy making. They have crucial field experience and are in a good position to detect adverse evolutions or situations. Even if it is the politicians who take the final decisions and determine priorities on policy objectives and instruments, stakeholders have an influence in promoting goals and/or instruments. Moreover, they can contextualise the evidence collected by the researchers. In the public administration model discussed in this paper, not only politicians are involved in defining problems and translating them into policies but civil servants and interest groups also play a role here (Van Dooren *et al.*, 2015). They are in fact co-drivers, not only of the goals to pursue but also of instrument choice. Therefore, it is important to present the framework to and receive feedback from the housing stakeholders as their experience can give additional insights in the framework and the potential use of it.

As such policy-making will be the result of the merging of knowledge from different actors, but also of the views and values of different actors. It will become a co-design process. And it is exactly this merging of knowledge (evidence available collected by researchers, experience from stakeholders and views and experience of government/public servants) and values that will lead to more value for society given a certain (housing) budget.

More collaborative ways of policy making have known a positive evolution since it is believed to have the potential to improve quality and legitimacy of decision-making and increase accountability for it, and also to inform, educate and build citizen capacity (Abelson & Eyles, 2004; Abelson, Giacomini, Lehoux & Gauvin, 2007; Li, Abelson, Giacomini & Contandriopoulos, 2015). By bringing information from different stakeholders to the policy process the resulting decisions are less likely to have unintended consequences and are more likely to fit into the existing context (Helbig *et al.*, 2015). Also the use of scientific knowledge and analysis in policy-making has evolved (Fobé, Brans, Vancoppenolle & Van Damme, 2009; Pedersen, 2014) or at least advocating its use (Newman, Cherney & Head, 2016). Bringing this amount of information from different sources (stakeholders and

But both trends seem to have some barriers. Where stakeholders are involved, representativeness of society is an issue to take into account as well as the differences in capacity or power of the stakeholders and the use of the results of such a process by policy-makers (Degeling *et al.*, 2015; Abelson *et al.*, 2003). Research results are often neglected in policy-making (Boyko *et al.*, 2012; Richardson, 2013; De Decker, 2014; Newman, Cherney & Head, 2016).

Therefore Boyko *et al.* (2012) and Lavis, Boyko & Gauvin (2014) experimented with the combination of both, namely to introduce evidence not (only) directly to the government but to a stakeholder participation process. In the following discussion with the stakeholders we also aim to gauge what the stakeholders' perception is about the use of the framework (which is in se an overview of the literature on policy instrument use and effects).

With respect to housing the stakeholders involved can be of different types: housing providers (private or social), investors/developers/constructors, end users (tenants or owner-occupiers) and intermediaries such as real estate agents or social rental agencies. Given that all citizens are considered to have a -whether or not enforceable- right to (decent) housing and the housing situation is such that this right is not materialised for all, there will also be interest groups defending the housing rights, for example organisations working with the poor, the homeless or community development workers. The interest groups based on this are defending the interests of (certain types of) housing users (or

those in need of housing). As said before, housing is partly, often for a large part, provided by the market, and partly by public funding. Not only the end users but also the housing providers can consist of many types. There are developers of new housing, private landlords and social housing providers. There is also a difference between for-profit and not-for-profit providers or between institutional or individual providers.

From the early start of the project, it has been presented to the stakeholders, at different phases of the development of the framework. These presentations were going from being mere an agenda point at a meeting to workshops and conferences organised with the specific aim of receiving feedback and input to the framework development (see Table 6.1 for an overview of all interaction moments and types).

**Table 6.1 Stakeholder interaction moments**

Date	Event
13/10/2014	Presentation project at autumn meeting of EHF
08/06/2015	Presentation at Housing Europe social affairs committee meeting
01/07/ 2015	Presentation at ENHR 2015 (Lisbon)
18/02/2016	Presentation at meeting of Flemish Housing Council
24/02/2016	Project workshop international stakeholders
03/03/2016	Project workshop Flemish stakeholders 1
19/04/2016	Project workshop Flemish stakeholders 2
20/06/2016	International conference Towards cost-effective housing policy
21/06/2016	Flemish conference Towards cost-effective housing policy
30/06/2016	Presentation at ENHR 2016 (Belfast)

At most of these meetings, the project came as one of the agenda points at already scheduled meetings, but the stakeholder websurvey, the following workshops and the two-days conference were organised with the sole aim of informing and hearing the stakeholders about the issues of housing policy goals and instruments. Below we will discuss the different interaction tools.

## 6.1 Websurvey

Before the workshops that would be held with the stakeholders, the different topics for the discussion were questioned via a websurvey in order to have some indications of the views and experiences of the stakeholders, in preparation of the workshops (see questionnaire in annex 3; for the Flemish stakeholder survey the questionnaire was translated to Dutch).

The main question to be addressed is which policy instruments tackle most effectively the housing problems. But before addressing the instruments, the goals of housing policy need to be clear. The alternatives with respect to instruments were whether subsidies should be targeted towards a small or a broad group of recipients, and towards the demand or the supply-side of the housing market. Another fundamental question is how tasks have to be divided between market and non-market organisations and which conditions should be attached. In the websurvey the focus was lying on affordability (as was the case in the empirical part of the report). During the academic workshop it was recommended to focus on one case and the participants suggested affordability.

The questionnaire was launched at the beginning of January 2016 and remained accessible until the workshops.

The stakeholders were addressed via two contact persons: one in the Flemish Housing Council (who sent the invitation and link to the survey to the 26 members of the Council) and one from

Housing Europe (who sent the invitation and link to 45 international stakeholders). The number of respondents was 28 (response rate of  $28/71 = 39\%$ ). However, many of the respondents did not fill in a large part of the survey and the number of usable questionnaires was only 23.

The survey did not have the intention to be representative of all the stakeholders but was only intended to give an indication of the variety of views and positions.

## **6.2 Workshops**

Three workshops, one with international housing stakeholders and two with Flemish housing stakeholders, were set up to consult the stakeholders on their views (see dates in Table 6.1).

Besides the researchers and civil servant participants, stakeholder participants ranged from four to seven. At the international workshop participants were representing: Housing Europe, UEPC, GdW, FLW/RHF. These represent (social) housing consumers and private suppliers. At the Flemish stakeholder workshops the private suppliers (construction), social suppliers, social rental agencies, tenants and community development workers were represented.

The set-up was such that the framework was introduced and then questions on goals, instruments and cost-effectiveness were discussed by the stakeholders as well as the usefulness of the framework (with a moderator).

## **6.3 Conference**

The last part of interaction with the stakeholders occurred at a two-day conference in June 2016. One day was aimed at an international audience while the other day was aimed at a Flemish audience. The purpose was twofold: (1) to introduce the framework developed to a wider audience of stakeholders and (2) to receive more feedback on the use of the framework (in a participatory set-up). Moreover, also wider housing policy changes were presented, discussed and debated. The programme of the conference can be found in annex (Appendix 6).





## 7 | Results stakeholder interaction

Below we draw conclusions from the information collected via the websurvey, workshops and conference with respect to the views of the stakeholders on goals, instruments and conditions, cost-effectiveness and the use of the framework.

### 7.1 Websurvey

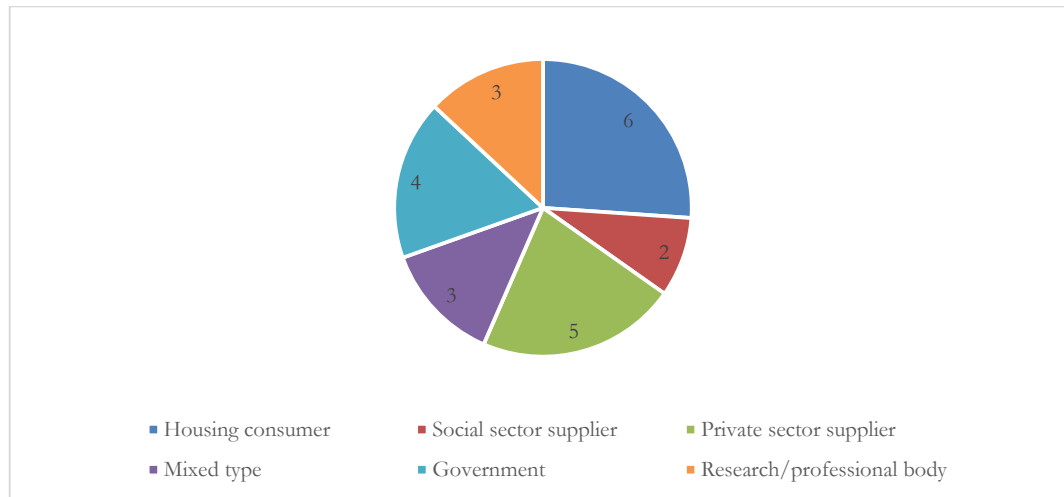
Despite its very small scale, the results of the websurvey were indicative and turned out to be a good starting point for the workshops.

As can be seen from the questionnaire in annex, questions are grouped around three subjects: importance of the goals of housing policy and to whom public support should be targeted, the use of instruments to address affordability and the conditions attached, and lastly the relevance of the cost-effectiveness criterion in argumentating for the use of certain instruments.

To get more detail on how the answers are divided, we group the stakeholders according to their type with respect to the interests they defend. This can be done according to many criteria but we use:

- housing consumers: these are mostly renters both in the private and the social rental housing sector, but could also be owner-occupiers or those in need of but excluded from housing such as the homeless;
- supply of housing-social housing sector: including social housing associations or social rental agencies (intermediaries between private landlords offering their dwellings at social conditions and households falling under the conditions);
- supply of housing-private housing sector: including those offering new housing (developers, constructors), real estate agencies, private landlords;
- government: at all levels: national, regional or local;
- researchers/professional bodies;
- mixed types: any respondent that cannot be classified in only one of the categories.

Figure 7.1 Distribution of websurvey respondents over different types, N=23



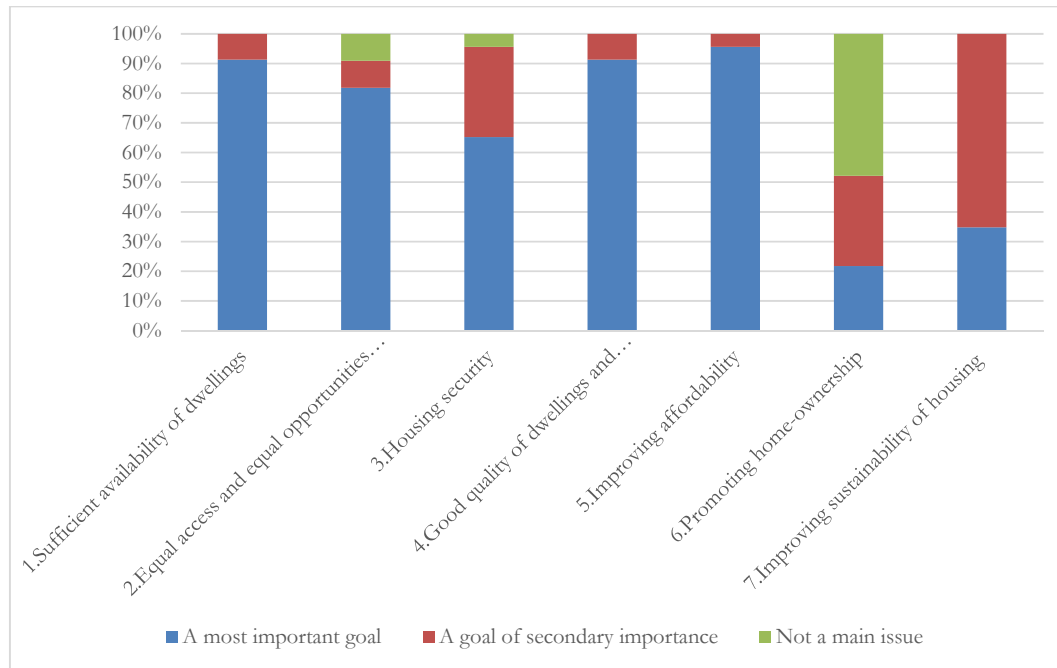
Source: stakeholder websurvey

In Figure 7.1 we see that one fourth of the respondents were defending the interests of the housing consumers and slightly over one fourth were supply-side representants (of which more private suppliers than social suppliers). There are also respondents who do not fit only one of the categories we specified, they are of mixed type mostly representing both the demand- and the supply-side of housing. So there is variation in the type of respondents, mirroring the variation that exists among the housing stakeholders.

### 7.1.1 Goals of housing policy

In the first section of the websurvey, respondents were presented with the following possible objectives of housing policy: ensuring sufficient availability of dwellings, ensuring equal access and equal opportunities to housing/promoting housing inclusion, ensuring housing security, ensuring good quality of dwellings and neighbourhoods, improving affordability, promoting home-ownership, improving sustainability of housing (energy efficiency and environmentally sustainable housing). Respondents could indicate if the objective was a most important goal, a goal of secondary importance, not a main issue or no opinion. In Figure 7.2 we discuss the results.

Figure 7.2 Importance of the goals of housing policy, N=23



Source: stakeholder websurvey

#### *Affordability, quality and sufficient access*

From figure 7.2 it is clear that housing affordability is viewed as a most important issue by nearly all respondents. From all the goals mentioned in the survey, it receives most support. The results of the stakeholder websurvey hereby confirm the suggestion raised by the participants of the academic workshop, namely to focus on housing affordability (as was done in the empirical part of the literature research and the remainder of the websurvey). Other goals that are deemed a most important issue by most of the respondents are the sufficient availability of housing and good quality of housing and neighbourhoods. The other goals were not so unanimously perceived as goals of most importance.

#### *Targeting and links beyond the housing domain*

Besides the goals already mentioned in the survey, respondents were free to add other goals they considered of primary or secondary importance. Respondents added issues about targeting or about links between the housing and other (non-housing) domains or on instrumental conditions of how support should be allocated (examples of answers given by the respondents below).

*Targeting: 'improving the situation of the renter'; 'guidance of weaker socio-economic groups towards the housing market';*

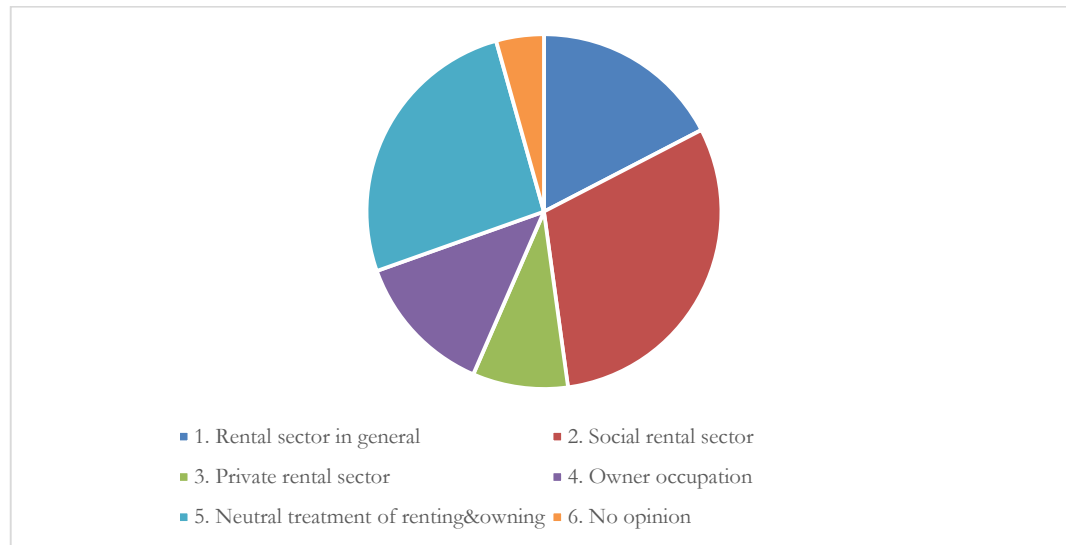
*Links between housing and other domains: 'Location corresponding to housing/ labour market needs. Maintenance in shrinking territories. Link between housing and health (elder people, mental disorders, disable people). Link between housing and mobility (youth, migration, homelessness). Role of housing sector in emerging issues (circular economy, democratic management of the cities, empowerment on each one trajectory, etc.); 'economical sustainability, social sustainability, ecological sustainability.*

*Instrumental/allocation of support: 'level playing field between private and public actors'*

Other: *'Of primary importance: a good tuning of supply to housing needs (diversification); of secondary importance: adapted housing and impact on housing situation, so respect for the autonomy and participation of citizens in housing process'.*

In the survey, targeting was also questioned explicitly, but focusing on the difference between the rental and owner-occupied sector with respect to affordability problems. The results can be seen in Figure 7.3.

**Figure 7.3** Sector to be most advantaged in order to improve affordability, N=23



Source: stakeholder websurvey

Also with respect to the sector that should be most advantaged in order to tackle affordability problems, there are different opinions (see Figure 7.3). Some argued that it is the rental sector in general, or only the social or only the private rental sector. Others argued that it is the owner occupation sector that should be most advantaged or yet others responded that both renters and owners should be treated neutrally.

*Consensus? Not between and not within type of respondents*

In Figure a4.1 (Appendix 4) the percentages are shown of those that perceive the goal as a most important issue by type of stakeholder. We found that there is variation within and between the types of whether the goal is perceived as an issue of most importance. Not only are there differences in the importance attached to goals between all stakeholders but also between and within types there can be different opinions.

In Figure a4.2 (Appendix 4) the distribution of the sector that should be targeted to improve affordability is shown by type of stakeholder. The same picture emerges here. Also with respect to targeting there are clear differences both within types of stakeholders and between them.

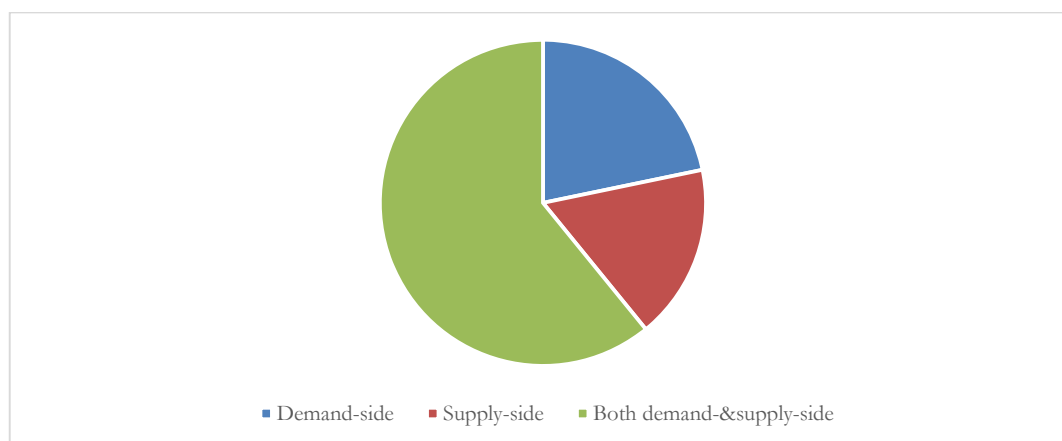
### 7.1.2 Instruments to improve affordability

The second part involved the choice of instruments in order to address the affordability problem. First the question of whether the instruments should be aimed at supporting the supply- or the demand-side was introduced. Afterwards, separately for the cases of demand-side and supply-side

support, respondents were questioned about their view on the conditions that should be attached to receiving the subsidy.

Figure 7.4 shows how the majority of the respondents is in favour of a policy that supports both the demand- and the supply-side of housing but there are also nearly equal shares of supporters for either the housing users (demand-side) or the housing providers (supply-side). Again, differences exist both within and between types of respondents (see Figure a4.3 in Appendix 4).

**Figure 7.4** Support demand- and/or supply-side in order to improve affordability, N=23

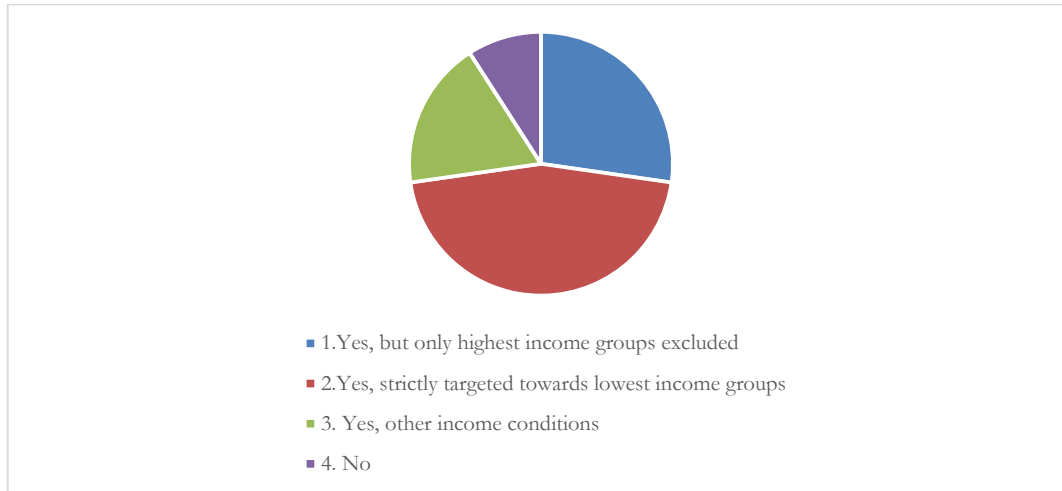


Source: stakeholder websurvey

Figures 7.5 to 7.9 give an overview of how the respondents thought about attaching conditions to receiving demand-side subsidies. Figures 7.10 tot 7.12 reflect the opinions of the respondents with respect to attaching conditions on receiving supply-side subsidies. Details by type of respondents can be found in Appendix 4.

With respect to attaching income conditions on receiving demand-side subsidies (such as housing allowances), a small minority did not perceive this as necessary (Figure 7.5). Most respondents seemed to agree on attaching income conditions, but there were differences in their views on targeting: some only wanted to exclude the highest income groups from receiving such a subsidy while others (nearly half of all respondents) were of the opinion that they should only go the lowest income groups. There is a clear difference in targeting, with the latter being quite narrow and the former (no income conditions) more universal. The respondents who answered 'yes, other income conditions' referred to the fact that focussing on the lowest income group (which was perceived as meaning lowest income quintile) was the idea but that the lowest income groups should be expanded to include more than only those in Q1. Households with a bit more income were also having affordability problems. One respondent formulated the following: 'those who are in need of housing and cannot manage with their own income, and are not able to live decently'. Therefore, also the respondents who answered 'other' are in favour of targeting to those with insufficient income (irrespective the height) to live decently. In Figure a4.4 (Appendix 4) we find again that the opinions of the respondents differ both within and between type of respondent.

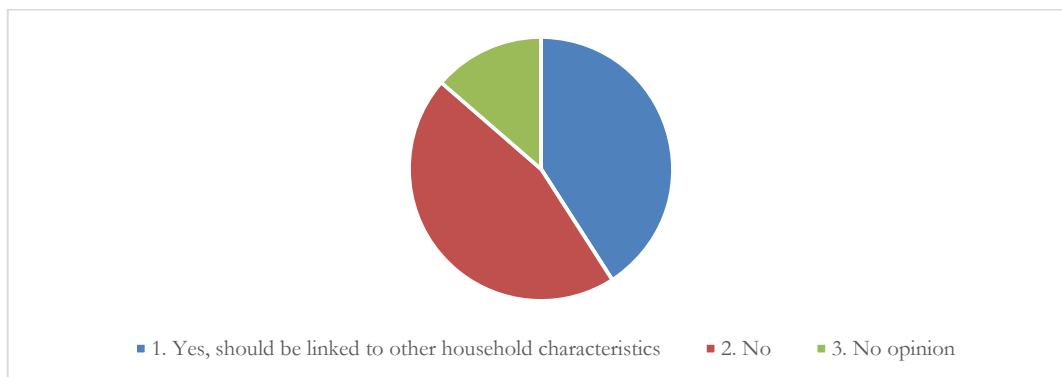
**Figure 7.5** Income conditions, demand-side support, N=22



Source: stakeholder websurvey

Another question queried the opinions of the respondents on whether the subsidy should be linked to household characteristics other than income (Figure 7.6). The respondents who had an opinion about this, were equally divided over not linking the subsidy to any other than income characteristics and linking it to other household characteristics. The characteristics mentioned were: household composition (single or single parents, households with children), household size, age (first time tenants or elderly), disability/restricted mobility, location (to balance attractiveness; urban, metropolitan, rural), collective living.

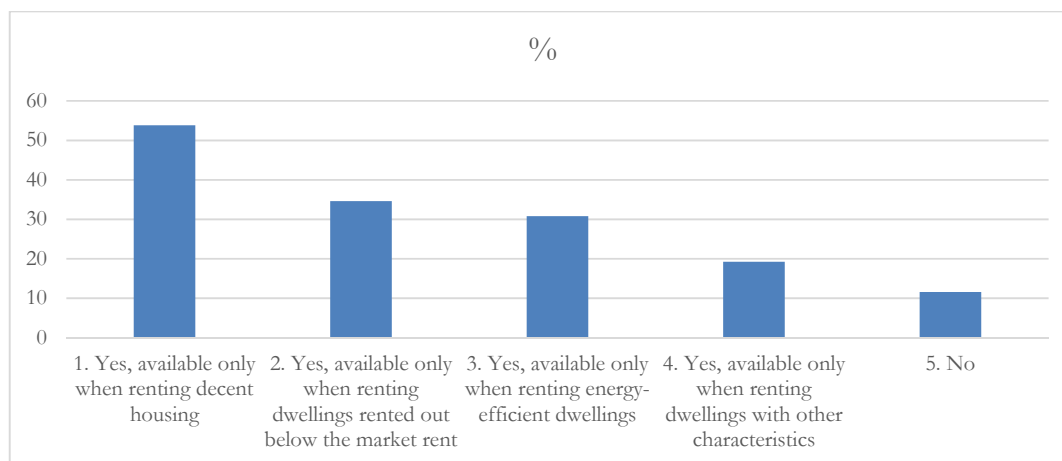
**Figure 7.6** Household conditions (not income) and demand-side support, N=22



Source: stakeholder websurvey

Most of the respondents also want to condition demand-side support to dwelling characteristics (Figure 7.7). These were mostly related to the quality (and adequacy) of the dwelling and energy-efficiency but also to the price (for dwellings rented out at below-market-rents or at rents that are maximum x% higher than the median market rent), systems with subsidy retention.

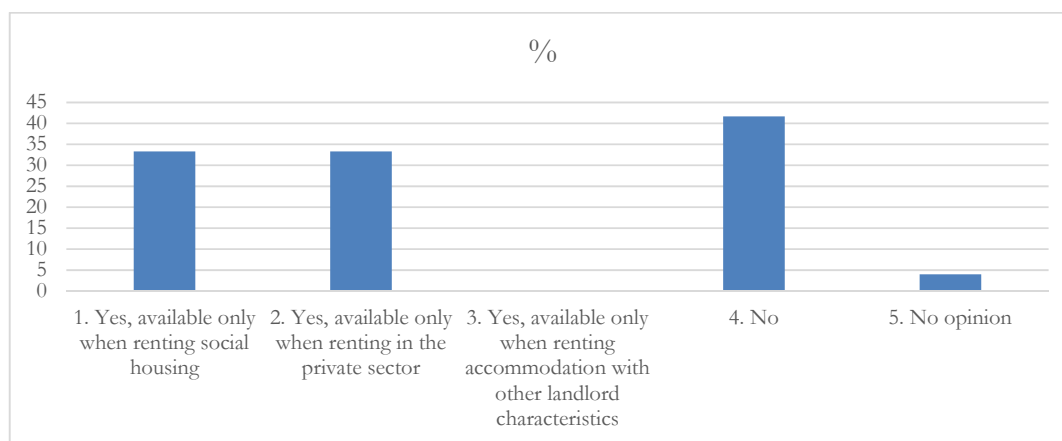
**Figure 7.7 Dwelling conditions and demand-side support, N=26**



Source: stakeholder websurvey

With respect to the characteristics of the owner of the dwelling (Figure 7.8), a renter would use the demand-side subsidy for, some respondents want the subsidy to be spent on dwellings of a social landlord while others want them to be spent on dwellings owned by a private landlord. There is another group that does not want to attach dwelling owner conditions on receiving the demand-side subsidy.

**Figure 7.8 Owner of rental dwelling conditions and demand-side support, N=24**

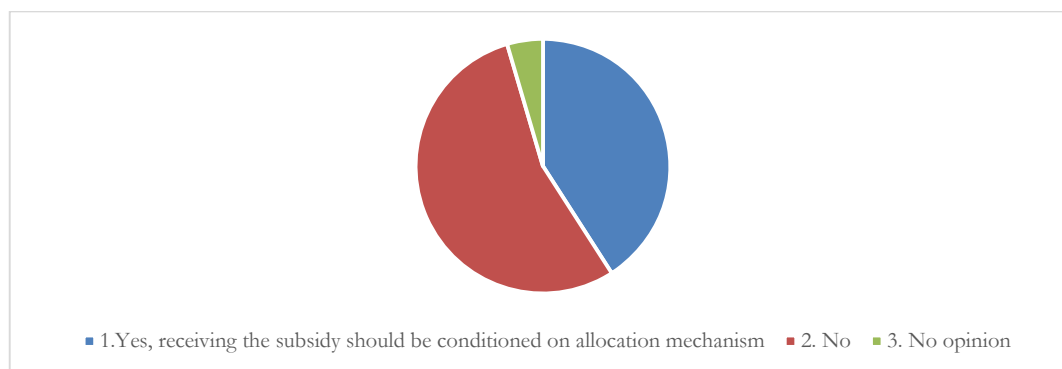


Source: stakeholder websurvey

Most respondents feel that a demand-side subsidy should not be linked to the existence of an allocation mechanism but there is also a quite large share who believes it should (Figure 7.9).



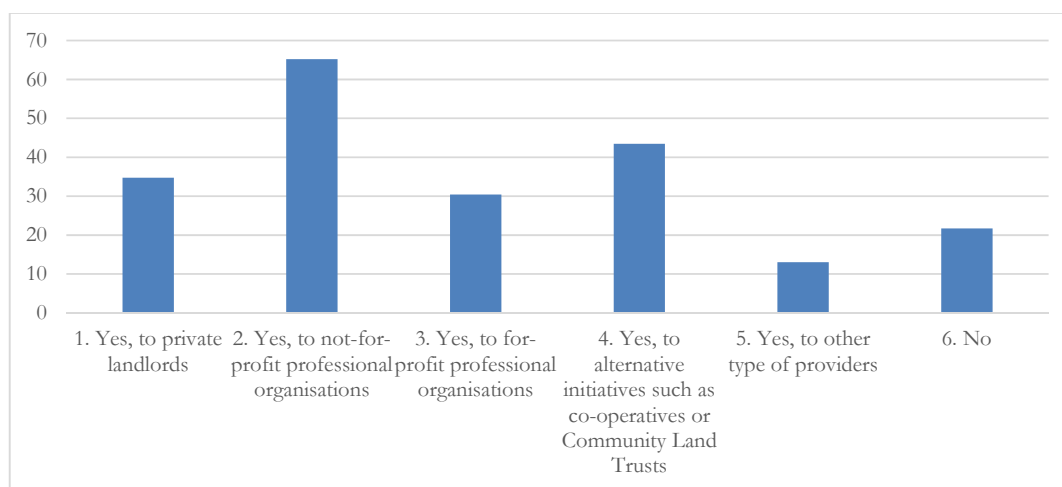
Figure 7.9 Allocation mechanism and demand-side support, N=22



Source: stakeholder websurvey

The following figures reflect the opinions of the respondents with respect to attaching conditions to receiving supply-side subsidies. The majority of the respondents would subsidise suppliers if they are not-for-profit professional organisation and a third of the respondents would subsidise private landlords or for-profit professional organisations (see Figure 7.10). There is also quite some part that would link supply-side subsidies to alternative initiatives such as co-operatives or community land trusts (CLT's). Those who answer 'alternative initiatives' mostly mention: collectives/co-operatives, CLT's. But also the following answers were given: NGO's, any type of accommodation driven by democratic rules and anti-speculative mechanisms, alternative housing (caravans, boats,...), pilot projects which can be tested and later regulated, all types active on the private rental market. With respect to 'other type of providers', the examples given were: social renters or institutional investors such as pension funds, banks, insurance companies, etc.

Figure 7.10 Supplier characteristics and supply-side support, N=19

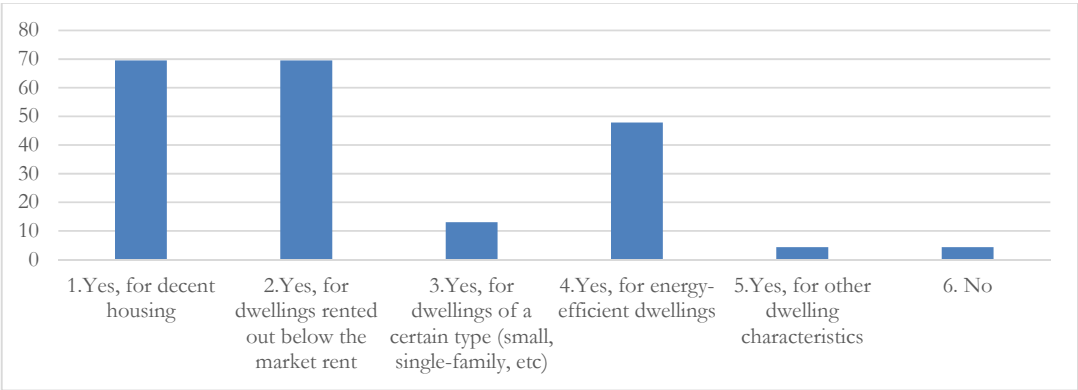


Source: stakeholder websurvey

With respect to dwelling characteristics (see Figure 7.11), supply-side subsidies should only be received when offering decent housing and offering a below-market-rent according to the majority of the respondents. Also the energy-efficiency of the dwelling should be a condition for half of the respondents. Those respondents who answered 'dwellings of a certain type', gave the following explanations which all were related to shortage in the market of a specific type of dwellings: 'depends on social needs, overall demand and lack of response of market supply (e.g. flexible short term housing

for refugees, students, etc.)’; ‘the shortage of single family dwellings requires a specific approach’; ‘when there is shortage of a certain dwelling type and the government wants to stimulate its supply for example of large dwellings in the private rental market, of dwellings for disabled persons, ...’. There was also a remark that current official quality requirements were too low (according to a Flemish stakeholder).

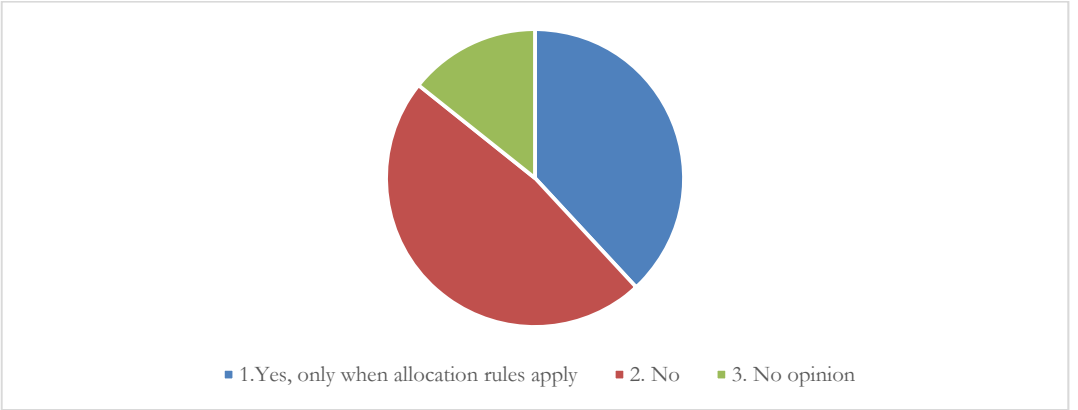
**Figure 7.11 Dwelling characteristics and supply-side support, N=23**



Source: stakeholder websurvey

The existence of an allocation mechanism is required according to a large part of the respondents but the share mentioning that there should not be an allocation mechanism requirement is even larger (see Figure 7.12). The allocation mechanisms should according to the respondents be income-based, needs-based, or allocated to vulnerable families.

**Figure 7.12 Allocation mechanism and supply-side support, N=21**



Source: stakeholder websurvey

### 7.1.3 Cost-effectiveness

With respect to the cost-effectiveness argument of the choices the respondents made, many different answers as to what was considered as a determinant of cost-effectiveness were supplied. Some of the arguments were based on the literature, or on a part of the empirical literature, some on own experience. Some focused on conditions for cost-effectiveness such as level playing field between the different actors or sticking as close as possible to a ‘normal’ market situation. Other mentioned cost-

savings in other areas such as health (which is the most significant and studied) but also energy and transportation cost-savings can be reached or more general social effects. The differences between the short and the long run were mentioned and the problem of low public investment when the return is only in the long term is addressed while another mentioned that cost-efficiency is more feasible when investing in long-term. For yet other respondents the cost-effectiveness exercise seems a very difficult or complicated one, which is dependent on many factors or where data are lacking.

The importance of contextual factors in the decision which instruments to use, was acknowledged by all. Some respondents highlighted specific contextual factors but that context plays a role was unanimously confirmed.

#### 7.1.4 Conclusion websurvey

Stakeholders are defending different interests in the housing domain, some being on the using side, others being on the supplying side, sometimes a mix of interests. Housing policy goals do not have the same importance for all stakeholder representants even though housing affordability, sufficient access and decent quality received most consensus. Other potential goals received a less unanimous support.

Which sector should be advantaged first with respect to improving affordability problems, stakeholders did not seem to agree on and this was not even the case within the same type of stakeholders (i.e. defending the same interests). On how the housing affordability problem, which received most support for its being the most important issue, should be tackled, again there was no unanimous response. The same conclusion can be drawn on the instruments: there are different opinions on which instrument should be used, how it should be targeted or which conditions should be attached. Each time both between and within stakeholders options differed. The cost-effectiveness explanations did not touch base on common ground, but on the importance of contextual factors the respondents agreed. These diverse views make it difficult to reach consensus for the direction of the policy decision making process.

## 7.2 Workshops

In the workshops we aimed to dig deeper into the issues touched upon in the websurvey. Many of the survey participants took part in one of the three workshops organised. We discuss successively the participants' views on the issues of housing policy goals, instruments and the cost-effectiveness criterion.

### 7.2.1 Goals

In a first point of discussion, the participants to the workshops discussed the objectives of housing policy: what is the most important objective; can priorities be indicated; are there other goals to which housing policy should contribute?

#### *Improving housing affordability, but what does it mean?*

There seemed to exist consensus on that improving housing affordability was a most important goal. But one remark needs to be made here, namely that 'affordability' did not have the same content for all participants. Some meant affordability in the private rental sector while others meant affordability in the home-ownership sector. Some measure it by the cost overburden rate, others by increasing house prices. The latter can in its turn be divided by the cost of existing houses and that of new construction. The latter cost is rising due to increasing norms and standards, for example energy-requirements. Particular problem groups in the home-ownership area are also mentioned such as the complete exclusion of the weakest socio-economic groups from new construction, or the incapacity

of young people to buy a dwelling, or the number of evictions, or a group home-buyers who financially went to their limits to be able to buy but are having renovation or maintenance problems and are living in bad quality housing.

Together with the objectives, choices on definitions need to be made, for example what exactly does 'affordable housing' mean? This reflects the need for good indicators.

#### *Coherence of the housing policy goals and weighing*

An issue that is closely related to affordability is the different degrees to which partners may feel that an affordable home should also be of decent quality. Here the quality of the existing housing stock is an issue. Also housing security was mentioned both for home-owners (and the risk of evictions and homelessness) and for renters.

Especially in one of the workshops, the participants agreed that the housing goals need to be considered together, so there is coherence in the system. Affordability cannot be considered in isolation from the other housing policy goals and in most cases the relative importance of each goal needs to be considered. For example there can be the issue of building more (social) houses for lower quality or fewer for higher quality. Decision-makers will need to weigh the goals with respect to one another.

In particular, fragmentation of policy-making was raised as a problem. There should be a more holistic view both within the housing domain as overall policy domains. Policy makers should look beyond their own domain and should co-ordinate their views and actions.

#### *Non-housing objectives and links between policy domains*

Housing policy has the potential to contribute in other policy areas and the respondents mentioned some goals that were important for them to strive for via housing policy. They mentioned issues of housing having a role to play in social inclusion, environmental sustainability, economic activity-creating new jobs, urban development, responding to societal changes such as demographic change, ageing, migration, depopulation of some areas.

However, in one of the workshops, it was explicitly expressed that the focus should remain on the housing policy goals while other goals should be considered as subgoals. But, when measuring effects (see below 7.2.3), these should be considered more widely. For example, there was the discussion on the societal cost of bad housing: improving access, affordability or quality of housing may, could potentially create effects in the domains of health and education. So not investing in these housing goals, has negative effects for society.

#### *Not only objectives but principles*

It can be difficult to identify one specific goal but what also matters are principles behind the choices of goals. Each member state has different expectations about housing, has another ideology. This concerns the role of the welfare state. Many participants raised the question about the role of the welfare state. Policy makers need to have an idea of what kind of welfare state is desired: one that targets narrowly to the very most vulnerable (a minimalistic government) or a welfare state that allows all to benefit (without specific targeting). The question was raised that if housing is considered a basic need why does it not receive the same treatment as other basic needs such as health and education which are universally accessible to all citizens? Another principle question is whether wealth accumulation should be supported (home-ownership) or whether support should be limited that guarantee decent living, especially for the most vulnerable. The question on the type of society that is desired also came up, and whether this is a more individual or collective one.

#### *Objectives of government might be different from objectives of individual citizens*

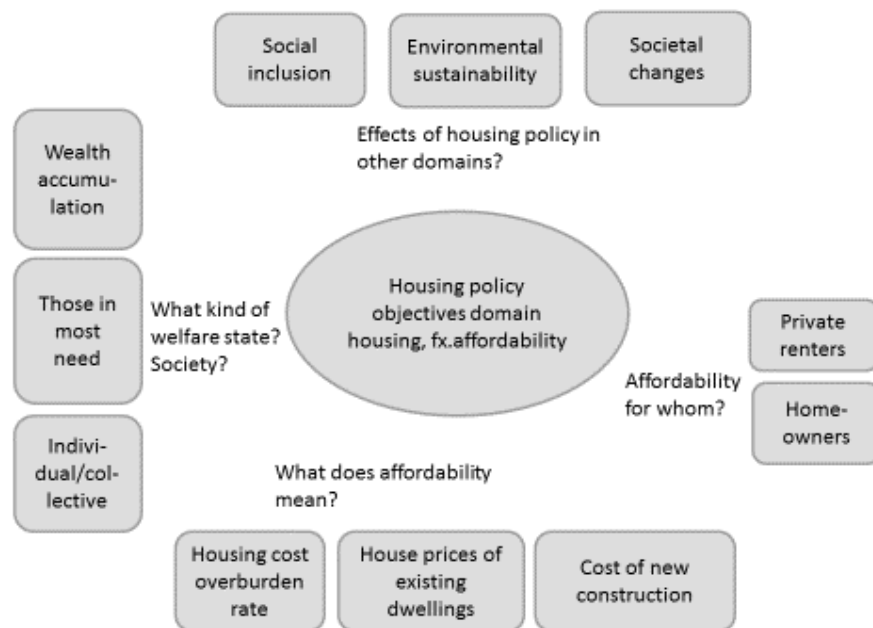
It was mentioned that the government may have different viewpoints than its citizens on what the objectives are, especially with respect to home-ownership. Home-ownership might be the best choice from an individual citizen viewpoint, if one is able to engage in it; but therefore it is not necessarily a

government's objective. Another point raised here was about the opposing views of individuals versus collective society. Participants agreed that government could for example aim for a more collective type of society while citizens are more individualistic oriented.

### ***Conclusion: many issues to sort out before moving to instruments***

Based on the above, it is clear that the discussion on which policy instruments to use will not be a straightforward one, as many stakeholders come to the discussion with different views and perceptions on what the housing policy objectives exactly are (see Figure 7.13). Mostly these details, lying behind for example 'improving housing affordability', are not visible for the other stakeholders and partners in the process of policy making. Before taking up the discussion on what the cost-effective instruments would be, a detailed clarification of the goal(s), together with their definitions and relationships is necessary.

Figure 7.13 Issues in housing policy objectives



Source: authors, based on stakeholder workshops

### **7.2.2 Instrument choice**

The next part of the stakeholder discussions focussed on instrument choice. In particular, the question was about the most suitable instruments in the participants' views to address a certain goal (affordability) but also about the reasons for choosing an instrument.

#### *A diversity of arguments*

Some participants seemed ex ante to be either in favour of supply- or of demand-side instruments while others were open to all if it would deliver good results, or some were in favour of a mix of supply- and demand-side instruments. The choice of being in favour of supply-side or demand-side support, or another instrument-related choice, seemed to be based on what the proclaimants knew from literature and statistics, from a situation they have experience with, or the past, or from their analysis of the problem. Some participants mentioned that they mainly reason from the point of view

and the needs of the target groups they are defending. If the target group is experiencing problems with affordability, the representatives of this target group will aim to use an instrument that improves the situation directly for their target group.

With respect to the underlying problem that causes housing problems, both the shortage of income and the shortage of qualitative supply were perceived as causes of the housing problems. Also considered was that an increase in income (demand-side subsidy) would maybe not be able to serve some other goals so it depends on what you value and the effects you expect.

In one of the workshops, the choice of instruments was said to be a purely political choice and a matter of power: those stakeholders that were the best lobbyists could influence the choice of instruments in their favour.

#### *Principles of support*

Within the supply-side instruments, there was another issue namely that of supporting the social or the private suppliers, or to have an open system with equal access for all players.

So the conditions matter: non-discriminatory support system, open to all players (with respect to supply-side support: public, private, PPP), all should have competitive and fair access.

And, also in the choice of instruments, the principles matter, as for example the issue of choice: when supporting the demand-side, people have more choice.

Also here, the balance between efficiency and equity was seen as important. And decision-makers will need to weigh again what to choose: an instrument improving efficiency or the other that improves equity? An example was given of how an anti-discriminatory policy could improve equal access but could lead to a shrinking private rental market.

#### *Time dimension*

Another determinant in the choice of instruments is the urgency of the problems (*e.g.* evictions in Spain, homelessness in UK). With respect to homelessness, a participant mentions that Germany and Austria, two countries with relatively more supply-side support, are doing better.

#### *Ideology*

And yet again, the ideology is an important determinant, and the values we hold, including believing in the market or not. For example, if we believe the market can do well in the provision of a basic need like housing, we do not need an instrument, or another instrument than in case we believe the market is failing. One participant noted here that when you see what is going on, you cannot do otherwise than believing the market is failing.

#### *Need for 'cleaning' and more transparency in the use of instruments*

Participants mentioned that policy often is 'accidentally' grown towards the situation it is in at the moment. They perceive the need for a cleaning up in the instruments that are used and an explanation of why the instruments are the way they are. There is need for more objective and transparent argumentation. Others added that even though argumentation will be made more transparent and objective with a listing of all the potential positive and negative effects of the instruments, the final choice will never be 100% objective.

#### ***Conclusion: need for transparency and objectiveness in argumentation but 100% objective choice not possible***

Instrument choice can be based on many arguments including the past, lobbying and power, facts and research, needs of the target group. There is need for transparency in argumentation and making priorities clear, but a 100% objective choice will never be possible according to the stakeholders. Even though the argumentation can be made more transparent and objective and all the possible

positive and negative effects are listed, choices will always need to be made about the relative importance of the effects of instruments.

### 7.2.3 Cost-effectiveness

#### *Definitions and determination of costs and benefits*

One of the problems related to cost-effectiveness measurement is the definition of cost-effectiveness or rather which definition to choose out of the possible interpretations of cost-effectiveness. Definitions can be very narrow: 'this bag of money has to solve this problem' and looking at one specific instrument or evaluating instruments in a comparative perspective. Others added that one cannot consider the effects too narrowly. For example when evaluating social housing, one cannot only look at how many dwellings are offered but also at what services are delivered by social housing or that it weighs more because it houses households that do not have a place to go otherwise, or what would be lost in terms of schooling if these households would not have a house, etc.

Related to this is the societal cost of inadequate housing, which was also mentioned at the workshops. Living inadequately has effects on other aspects of society such as health and education. Investing in better quality housing therefore will not be restricted to improved housing outcomes but also other outcomes will be positively affected. Turned around, not investing in improving housing quality hence has a large societal cost.

A problem with measuring the cost-effectiveness in general, is due to the magnitude of problems and objectives that are intertwined. Objectives cannot be considered fragmentary which makes it difficult to measure cost-effectiveness. Workshop participants mentioned that all costs and all benefits need to be taken into account when making cost-effectiveness evaluations.

#### *Timing*

Also timing was raised as an important issue. There can be a difference between being cost-effective in the short versus the long run. Some instruments may be cost-effective in the short but not in the long run or the other way around and politicians have the tendency to consider mostly the short run.

#### *Conditions*

If supply-side subsidies (such as social housing, social rental agencies or landlord subsidies) are perceived as the most cost-effective instrument, participants linked this to the possibility that a supply-side subsidy offers the possibility for making rent, quality and/or housing security requirements by the government. The cost-effectiveness of demand-side subsidies was seen in its economic viability, allowing freedom of choice and the possibility to effectively support all that are eligible to receive it.

#### *Data and transparency requirements*

However, even when one fragmentary goal such as housing affordability is considered, the problem can be the lack of data or the lack of transparency in data, for example not having insight in the cost for the government of offering one unit of social rental housing for a certain rent for a certain period. This is not an easy computation since social housing can be obliged (by the government) to do more than just offering bricks-and-mortar. Housing associations receive different tasks over time and also changing regulation affects costs. So in fact it is difficult to compare a demand-side subsidy and a supply-side subsidy leading to the same affordability outcome for a household. The difference lies in the quality of the dwelling occupied and the additional services attached.

The need for real cost-benefit analysis of the different instrument options was raised since currently (raised at Flemish stakeholder workshop) it is a matter of lobbying and power. Participants expressed that the current 'patch-up' system was accidentally grown towards the current situation and difficult to adjust. But there is a need for more objective, fair and transparent argumentation.



#### *But not only data*

However, cost-effectiveness was also considered to be not purely mathematic because there are so many unknown or unmeasurable parameters. People have different parameters (which are unknown to other partners and this leads to contradictory views). One of these parameters can be timing or the value attached to consumer choice and letting people free to spend the support from the government in the way they want. Another can be the equality principle which some considered violated in case of social housing which is reserved for a very limited number of households while so many more are eligible. These issues are difficult to quantify.

The workshop participants also raised the question of how rational the choice *should* be, how far one wants to go in rationalising the choice.

#### **Conclusion**

All costs and benefits, both in the short and the long run, need to be clear, in as much as possible quantified, but at the least open. There is a need for more data and more objective, fair and transparent argumentation of instruments.

#### **7.2.4 Use of the framework?**

A last issue discussed at the workshops was the usefulness of the framework in reaching more transparency and consensus in the policy decisions. This issue was only discussed in both Flemish stakeholder workshops and the opinions differed slightly. In one of the workshops participants were rather sceptic about its use while in the other it was considered as a possible tool in reaching more fair and objective evaluations of instruments.

Some stakeholders were not really seeing possibilities for the use of the framework (or similar tools) by politicians. They did not believe that there would be political support for using such tools. Participants viewed the framework also as being too complex to be used by politicians and maybe therefore it would be easy to become ignored. Also based on experiences with the type of discussions in the parliamentary debates on housing issues (which are very accessible and much less technical of nature than for example debates in the energy domain), the tone was not optimistic.

Nevertheless, the possibility to discuss (in the Flemish Housing Council) fundamental issues such as the objectives of housing policy, was appreciated. And it could potentially be applied to new instruments. However, it can only be applied well if the Flemish Housing Council is involved from the early start of decision-making about instruments, which is not the case at the moment.

By other stakeholders the text was considered a useful toolbox which can help to clarify all instruments' advantages and disadvantages. This would improve the objectiveness of the argumentations and discussion on instruments. The framework was considered as a possible input or complement to the RIA, a regulatory impact analysis, which is currently a not so well developed nor well used evaluation instrument. The framework could potentially revive the use of the RIA.

The views on the usability by the Flemish Housing Council was carefully positive, maybe if they were included in discussion over new instruments from the start. However, the fact that the Council prepares advices which usually focus on a specific topic, allows less the use of such a broadview framework.

Participants conclude that the application of the framework might not facilitate the discussion but enrich it and make it more objective. However, they believed that the views of the members of the Housing Council would remain to be different. And even though a stakeholder might be convinced of the objective priority of an instrument, if it is against his own target group, he will not defend it.

Also for the applicability of the framework, lack of data is considered a problem. Evidence could diminish the influence of ideology in decision-making but the discussion cannot become objective if there is no evidence. But even though data is available, participants also mention that it will not be possible to work 100% evidence-based. There will always be 'buts' or partners who want to ignore



the evidence. Due to the fact that the Housing Council is also politically composed, members will not defend an instrument if it is not 'good' for their interests, so the discussion will never be 100% objectified.

### ***Conclusion***

The tool is considered quite complex but still applicable. It may not facilitate but will objectify the discussion on instruments. But a 100% objective choice will never be possible.

#### **7.2.5 Conclusion workshops**

Many different views were made explicit at the stakeholder workshops. By discussing objectives, instruments and cost-effectiveness and the reasons behind them, the views and priorities of the different partners in policy making became more explicit to each other.

The complicated discussion on housing policy instruments is not surprising given a policy domain which is partly served by the market and where not only the product itself (housing), but also the users and suppliers of housing are so diverse. There are owners and renters on the user side and private for profit and not-for-profit and social suppliers.

Defining the priorities of the housing goals is not an easy exercise. And even when consensus seems to exist on the importance of a specific housing policy goal such as affordability of housing, there are still other issues which are related to that housing objective, to be solved. For example definitions are important and goals (but also criteria) need to be exactly defined (what does the objective mean, how can it be measured). Another issue is how narrowly targeting should be and this was considered to be dependent on the kind of welfare state, and society one aims for. Should it be a very inclusionary or a more individualistic one? A very important issue concerns the other goals that can be served by housing policy. But even though housing policy can serve non-housing goals, the focus should remain on the housing goals when evaluating housing policy instruments.

It is another issue when discussing the choice of instruments and their cost-effectiveness. In that case, all the costs and all the benefits should be taken into account, also those lying beyond the domain of housing. There is no consensus on the instruments that should tackle affordability or access to housing because there can be different goals lying in the background, different definitions of the aim of the welfare state, different elements of the context that are being taken into consideration, different principles adhered to, ... Making those elements visible, making the argumentation more transparent and trying to find consensus may lead to more cost-effective instruments.

This leads us to the definition of cost-effectiveness. In this sense cost-effectiveness is not a purely mathematical concept but it rather means offering more value for money for society. It leads to more value for money for society because it will respond better to the goals, principles, and views of the partners involved in the decision-making process. These are often lying behind the argumentations but once they are made explicit, more transparent choices on what to take into account and why, can be made.

Some of the input from participants was reflecting the issues already raised in the framework such as the timing, or the principle of consumer choice; but other considerations could be added and these were of a more overarching nature, not restricted to the housing policy domain. This includes issues on what type of welfare state, what type of society we aim for and how mathematic, how rational the policy choice can be or should be. The limit on the rationality of the choice is not restricted to problems of data availability but also the extent to which choices can be 100% evidence-based. Even though frameworks as the one presented could be useful tools in making the argumentations more objective and transparent, in the end the choices will be influenced by the interests one is defending and the ideologies that go with it.

So we can conclude that the framework offers insights and possibilities for more transparency but the framework should be extended with the following considerations:

- ⇒ Defining type of welfare state/society (for example narrow targeting versus universal; individual versus collective society).
- ⇒ Making clear definitions of what exactly the goals and the principles mean, how they are translated in workable concepts.
- ⇒ How mathematic/rational choice should/can be; how much room should there be for non-rational elements affecting the choice?
- ⇒ Co-ordination over policy domains.

### 7.3 Two-day conference

As the two-day conference did not completely follow the same structure as the survey and the workshops, we use another structure in the discussion as well. We combine the results of both conference days in the discussion below. We focus on the usefulness of the framework and the way it can be used, namely in a deliberative set-up where government, researchers and stakeholders participate and add their knowledge and experience to the discussion to come to a consensus or supported policy choice.

#### 7.3.1 Use of the framework

The framework received positive comments by policy makers and policy advisors. It was mentioned that it contains a unique literature review and useful inventory of indicators. The set-up of the framework with its different steps (what is the problem, what is the cause, what can be the instruments and what are the costs and benefits of the instruments) makes one consider the main issues again, starting from the strategic goals, and question the reasons for taking each step. The framework was also described as a tool where you would not know in beforehand with which instrument you would end up. This taking a step back was seen as a positive point. It was mentioned that the framework increases reflection in the policy cycle and also increases the use of objective data in the policy cycle. This way the cycle of obvious or path dependent instruments can be broken. It also allows the motives and the reasons for choosing certain instruments to become visible. Therefore, it will be necessary to make one's own normative framework visible. We conclude from these reactions that the potential users see it as a tool to increase transparency, structure and accountability in policy instrument decision-making.

Besides positive points, also some caveats were mentioned. For example that a broad perspective will be necessary, which is not straightforward. Less concrete goals, such as equity and fairness will also have to be pursued besides the more concrete goals of for example affordable housing or improved housing quality? And it is less easy to judge what exactly an equitable or fair outcome is. The goals of housing policy (and instruments) should also be framed within a view of society with its solidarity mechanisms and basic rights. Also when discussing costs and benefits, one needs to be careful to take a broad view including not only the direct costs such as the budget for social housing but also more indirect costs such as the health costs of not investing in housing (quality).

Reactions from stakeholders were mixed. Some saw much potential in the framework and others were more careful. Some were very positive about the framework, which was considered a useful tool to strengthen the stakeholder's discussion (negotiation) capacity, containing a lot of useful new information. So here we found a confirmation of its capacity enhancing possibilities.

Other stakeholders mentioned it was quite difficult to work with, it would be difficult to match the content with the messy realities or it would not be able to solve all questions. Another issue was whether it leaves enough space for innovative solutions. Others doubted very much its use by politicians. They mentioned for example that housing policy was more about politics than about policy.

Or some confirmed that a more technical policy approach is interesting but that you cannot get away from the politics. This suggests that 'politics' is considered a barrier to more structured policy-making. However, we do see possibilities for improving the policy-decision process. Namely, if all interests (and 'politics') are represented in a multistakeholder discussion, where each makes explicit the interests one is defending and the reasons for choosing an instrument. A deliberative approach where the discussion can be based on evidence and experience and making values and views explicit can lead to more value for society.

### 7.3.2 Deliberative set-up

There is a strong belief that stakeholder participation in policy design will increase cost-effectiveness in the sense of being able to result in policy decisions that offer more value for society. Dialogue is seen as important. Participants mentioned that it is important one does not stick to his own agenda and one takes a more integrated view. Representatives of government mentioned that it is not easy to move towards a common agenda and there is a need for offering a direction to the discussion from the government side. Other participants mentioned that this process would slowdown decision-taking and that there are limits to the representative role the stakeholders can play. These are issues about the cost (time-cost) and finding the 'right' public and ensuring representativeness in society.

### 7.3.3 Conclusion conference

At the two-days conference the views of the participants on more stakeholder participation in policy-making as well as the use of evidence in that process were explored. There was a very positive attitude towards more stakeholder participation (in a deliberative way). Both stakeholders and government representatives saw the advantages of stakeholder engagement. But there are some working conditions that should be agreed. A participatory way of decision-making may slow things down and it may not be so easy to reach consensus so the timing and decision-making procedures may need to be agreed. The conditions also include that the participants do not only stick to their own agenda but an openness is required towards other interests. From the government side, solutions should not be pre-set. To ensure that the results of the process are actually used, the way how should be discussed. With respect to the framework and its use in such a deliberative process, both government representatives and stakeholders were positive. It was considered a rich source of examples and criteria to be considered in the evaluation process. Restrictions to the use of the framework could be that it can be considered rather difficult or complex. According to the stakeholders this could be reason to become ignored by politicians. Furthermore, it will not be possible to grasp everything nor will it be easy to match it with complicated realities. Everything taken together, despite some restrictions and the need to create good conditions, there seemed to exist an openness to make policy in a deliberative way including the use of the framework.

## 7.4 Conclusion stakeholder consultation

A methodology to obtain more value for society from government spending on housing was proposed in this report. The first part consisted of the development of a framework based on theoretical and empirical literature. It offered an overview of the evidence with respect to improving housing affordability. The second part consists of using this framework in a deliberative stakeholder process. This was tested in a variety of stakeholder consultation ways, namely a websurvey, several workshops and a two-days conference. In the stakeholder consultation process, the idea was to gauge the opinions of the stakeholders on the use of the developed framework. Furthermore, the reflections of the stakeholders were taken up in the framework.

In the literature it was found how the type of welfare state already sets some frame for the type of instruments used. It was confirmed by the stakeholders that the type of welfare state is a very important determinant. It needs to be made clear what type of welfare state is wanted and what kind of society. In this respect, the parties involved in the decision-making process will need to take positions and make these explicit. Also definitions of other important goals (besides housing) will need to be done explicitly in order to make instrument choice transparent. Together with this comes the importance of defining good indicators. This serves two goals, namely creating definitions so that it is clear what is exactly meant (for example what does affordability mean) and also to be able to follow up progress. Moreover, timing was included as an element. Some matters are more urgent than others and require to be treated with priority. This will also force decision-makers to take position and to make clear what is considered an utmost urgent matter.

On the topic of cost-effectiveness of policy instruments, there was a clear common desire for more data, more evidence, and especially more transparency in the decision-making process. There was a tendency towards a certain understanding of a wider notion of cost-effectiveness (beyond making housing more affordable, for example respecting principles such as fairness or consumer freedom and other goals such as social inclusion) and a clear attitude in favour of applying cost-effectiveness analyses to the issue of instrument choice. Where possible, cost-effectiveness studies should be based on data and quantifiable indicators but other considerations also have a place and need to be discussed.

Other things to take into consideration according to the stakeholders are the degree to which the instrument choice can or should become evidence-based (or other terminology used: objective, rational, technical, mathematic). The limits on making the choice more technical are not restricted to problems of data availability but also to the political will according to the stakeholders. Policy choices will always be influenced by political views and politicians are mandated by their voters to make choices. But the link between a view and the resulting policy can become more transparent by using technical tools. Even though the framework could be a useful tool in making the argumentations more transparent, the choices will of course remain to be influenced by the interests one is defending and the ideologies that go with it, not only from the politicians but also stakeholder side. However, making these interests and views and one's evaluation criteria clear can contribute to better policy-making, since it offers a better view on values and ideologies behind the choices of goals and instruments. This too can increase the transparency of how a certain choice was made. In this sense, an informed deliberative process can contribute to democracy.



### -PART 3 HOW TO USE THE FRAMEWORK? -



## 8 | The decision framework

In this part, we bring together the elements from both the theoretical and empirical literature and clarify how they can guide the choice of instruments as well as the consultation process. As we conclude from the investigation of the theoretical literature, theory can only guide the choice of instruments up to a certain point. Following (welfare economics) theory policy goals are normative (ideological), but instrument choice can be more technical. The instruments can be derived from an identification of the problems in the market (efficiency problems) or from the outcomes of the market (fairness of the outcomes). What is deemed fair is subject to discussion, culturally determined and mirrored in the ideologies and the objectives of governments and the welfare regime of a country and the housing stakeholders. What should be tackled first, efficiency or equity problems, is a political choice to be made by politicians that are mandated by their voters.

Theory can in principle fulfil the role of explicitly indicating the ‘right intervention tool’ via technical reasoning. However, when evaluating tools it appears that not only the objectives of the government are determined by ideologies but also the choice of instruments is and can be linked to the welfare regime of a country or to the relative strength of the stakeholders.

Even though theory can point in the direction of which type of instruments to use (financial, regulatory or communicative), more detailed instrument choices (for example on subsidising demand- or supply side, on targeting, etc.), will have to be made and these are specific to a situation/context. Empirical evidence of what is a more (cost-)effective instrument in comparable countries/situations can be used informatively, but not exclusively, as each situation in time and place will have its own characteristics.

Since the potential/expected effectiveness of an instrument is dependent on the (relative importance of the) objectives and the context, it is impossible to provide a framework that offers a direct answer to the question of which instrument(s) to choose. But the design of a reform of a housing policy system can be based on a well-informed and transparent choice process involving the partners concerned. It will be necessary to investigate for each situation what the causes of the problems exactly are, because this will point in the direction of which type of instruments to be used. But also a description of what the local circumstances are, is necessary. As such the problem can be addressed more rational and transparent. The instrument choice that is derived from this process might involve a mix of instruments each with its advantages and disadvantages and choices will still have to be made. But as such, the choice process will become more transparent and more widely supported.

However, when a decision has to be taken about the use of instruments, not only theory and empirical-based findings from other countries can lead to a choice. Ideology, path dependence, current context and social support will all have to be considered and trade-offs will have to be made. Different stakeholders may find themselves in different positions with different aims and criteria. Therefore, it seems impossible to develop a technical decision tool to take into account complex reality, but rather should a process be developed that improves transparency in the decision-making process and finds ground with all the relevant partners.

How do all these inputs form the puzzle that allows for making cost-effective policy decisions?



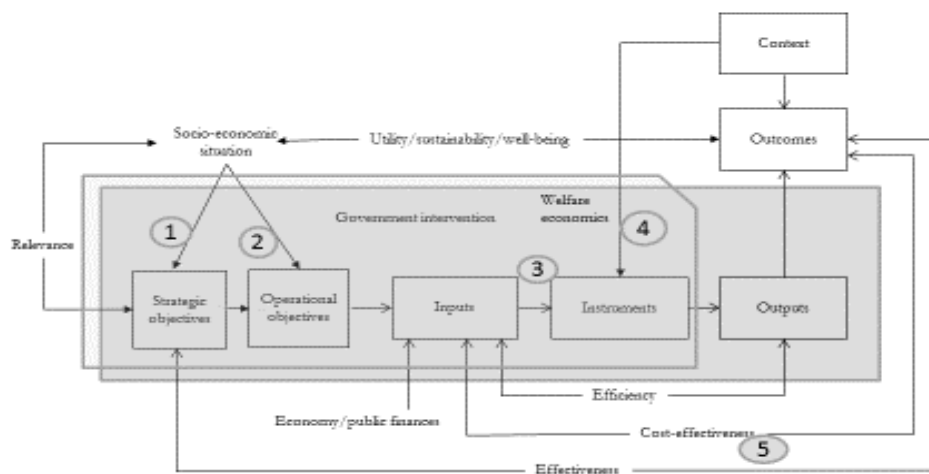
## 8.1 The conceptual framework

### 8.1.1 Decision framework: overview

To get a broad overview of the framework's different elements, we refer to Figure 8.1 and apply these inputs to a case where the strategic goal of ensuring affordable housing for all is not met.

We develop the decision making framework by showing how the information collected from theoretic and empirical literature and the consultation with the stakeholders may guide the choice of instruments that can result in a more cost-effective choice for society.

Figure 8.1 Decision framework for instrument selection



Source: based on Van Dooren et al. (2015), de Peuter et al. (2007), Heylen et al. (2010), adapted

The public administration approach is applied to motivate government intervention: namely when the socio-economic situation is such that the country's/region's constitution/code (for instance the Flemish Housing Code) is violated. In that case there is a reason for the government to intervene. In the first step (1) in the framework above (see also Table 8.1) the government has set some strategic goals are set (e.g. improving housing affordability for all citizens). The strategic goals are inspired by the socio-economic situation and can be fed by certain events/shocks or by the pressure of stakeholders. Let us assume that part of article 3.<sup>23</sup> 'The right to housing' of the Flemish Housing Code, namely 'ensuring affordable housing for all', is violated, and the strategic goal of the government intervention becomes: 'improving affordability (for a certain group, for example low-income households'.

In the next step (2) the welfare economics theory is applied in order to get a first indication of the type of instrument that should be used in order to be the least distortive and the most welfare enhancing. The situation is analysed to detect what is actually causing the affordability problems (e.g. housing shortages or income problems and why these exist). This will lead to operational objectives:

<sup>23</sup> <http://codex.vlaanderen.be/Zoeken/Document.aspx?DID=1005498&param=inhoud>

for example increase housing supply. If both efficiency and equity problems are detected, a decision will have to be taken on what is most important to be tackled first. The setting of these weights, cannot be derived from welfare economics theory and is a normative question. Government and stakeholders will have to make decisions with respect to this issue.

Given the information from steps (1) and (2), in a third step (3) welfare economics theory predicts that some instruments will be best for efficiency and/or equity (see Table 8.2), and cost-effectiveness. The benefits and costs considered are, besides efficiency and/or equity costs and benefits, for example consumer choice (when aiming to increase total welfare through utility increase).

From the empirical literature, it became clear, that in the evaluation of instruments the results are dependent on additional goals playing a role, the different contextual situations and the principles adhered to. From this literature, a lot of other elements need to be taken into account to calculate all the costs and all the benefits. For example, rent increases due to targeted income support in a situation of inelastic supply may leave some non-recipients worse off, facing higher prices. This is a cost that has to be taken into account when calculating the total cost of a targeted income support intervention. So step (4) in Figure 8.1 above entails an analysis of how other goals, the context and the principles adhered to may affect the choice of instruments. Steps (3) and (4) combined will lead towards more the socially cost-effective options.

When there are no data available, the ex-ante analysis of instrument choice will stop here. But when there are data, a quantitative cost-effectiveness analysis in step (5) may lead to the final information in order to take cost-effective decisions (see 4.1.3 for an overview of possible methods). And a data collection system may need to be set up in order to collect information for ex post cost-effectiveness evaluations to continuously guide the choice of instruments.

**Table 8.1 Steps in the policy instrument selection process: affordability**

Step	Approach to apply	Applied to housing
(1) Violation of Constitution/Codes => Strategic objectives	Public administration	Ensuring affordable housing => Improve affordability
(2) Reasons for gap (what?)	Welfare economics	Analyse why there are affordability problems
(2) Operational objectives	Public administration/welfare economics	See part 3.3.2 how operational objectives can be derived from situation analysis of affordability problems
Instruments selection (how?)	(3) Welfare economics	See below Table 8.2
	(4) Other goals + context + principles	See below Table 8.3, 8.4, 8.5
(5) Cost-effectiveness (if?)	Public administration	Dependent on availability of data, cost-effectiveness of different options quantitatively compared Value the effects of option x, y, z, ... Value the costs of option x, y, z, ... Expected cost-effectiveness

### 8.1.2 Situation analysis: what is causing affordability problems?

In Table 8.2 we make a summary of how the analysis of the situation (what is causing the affordability gap) may guide the choice of instruments in steps (2) and (3). This is built on Section 3.3.2 so we do not discuss the table further.

**Table 8.2 Situation analysis of affordability problems via welfare economics**

Situation	Situation specifics (2)	Would lead to (3)
<i>Equity problems; efficiency assumptions hold</i>	Affordability problems due to income problems	Income support (targeted)
Horizontal inequities	Shortage of income => increase effective demand of specific socio-economic groups via cash redistribution	Cash transfer (demand-side) to needy groups
Vertical inequities	Unequal income distribution leads to unequal housing distribution => cash transfers from rich to poor	Cash transfer (demand-side) targeted to the poor
<i>Efficiency problems cause affordability problems</i>	Affordability problems due to housing shortage (of a certain type/in a certain region)	Address the situation universally (e.g. universal subsidy)
Slow supply side response	Construction lags due to lags in securing land  Immigration in an area leads to sudden increased demand	Smoothen regulation/changes in land use/zoning/(local) planning  Supply-side policies (temporary) to expand supply + emergency policy measures (interim)
Imperfect information	Lack of knowledge about actual return => private supply not responding to increase in demand	Communicative instruments: information, sensitisation, ...
Private discount rate > social discount rate	Private sector is underinvesting	General price subsidy

### 8.1.3 Policy aims: housing and non-housing, explicit and implicit

Since part of evaluating the cost-effectiveness of an instrument is its effectiveness, where outcomes are compared with the goals that were set by the government or stakeholders, it is important to have a clear view of which the goals are. As we have seen (see 5.1.2) there are not only the strategic objectives but also the implicit goals. In the discussion of policy aims, the parties involved will have to attach weights or priorities to the housing and non-housing goals that they want to achieve. Also implicit objectives will have to make explicit because they may give insights in the argumentations of partner's to choose for instruments. From both the consultation with academics and the consultation with stakeholders it became clear that improving affordability was currently considered as a housing goal of utmost importance. Some stakeholders reacted that other housing goals should always be protected in achieving better affordability, not in the least housing quality and security. For some the focus should remain on the housing goals while others would involve non-housing goals as well such as sustainability or social inclusion.

Table 8.3 presents some examples of how other goals may affect the choice of instruments defended. It might be that (some of) the discussion partners want to protect or enhance labour mobility. This would lead to a preference for portable subsidies, most likely demand-side since they have, besides their effects on housing affordability, positive effects on labour mobility as well. The following tables are built on the input from literature and from stakeholder consultations.

**Table 8.3** Considerations of goals in the instrument selection process to tackle affordability problems

Considerations	Would lead to (4)
Labour mobility (geographical and upwards labour mobility)	<ul style="list-style-type: none"> <li>- Preference for portable subsidies, most likely demand-side</li> <li>- Design! =&gt; taper not too high in order to avoid labour disincentives (&amp; poverty traps)</li> </ul>
Poverty	Demand-side subsidies linked positively to poverty impact
Increasing utility versus increasing housing consumption	<ul style="list-style-type: none"> <li>- If utility =&gt; untied cash transfer (demand-side)</li> <li>- If consumption (and if supply-response low) =&gt; supply-side/ if demand: voucher system?</li> </ul>
Non-housing services (e.g. guidance activities)	If non-housing services important, rather supply-side with guidance + which provider can offer these services most efficiently?
Spatial considerations	Supply-side subsidies can be better geographically targeted
Sustainability	No a priori suggestions; if spatial or socio-economic targeting necessary => targeting
Social inclusion	No a priori suggestions but needs to be considered how instruments may affect social inclusion
Coherence/integration	When coherence/integration of policy domains explicitly desired: instruments need to be considered within the wider policy context and instrument box

#### 8.1.4 Context analysis

In Table 8.4 it is shown how different elements of the context will influence the cost-effectiveness of a certain instrument. To have a good estimation of the cost-effectiveness, all the benefits and all the costs of all instrument options need to be compared. Therefore, it needs to be clear what the benefits are and what the costs are.

Table 8.4 gives an overview of how the different considerations and the answers to some questions are likely to affect the effectiveness and the costs of an instrument.

**Table 8.4** Considerations of context and relevant criteria in the instrument selection process to tackle affordability problems

Considerations	Would lead to (4)
Supply elasticity	Inelastic => considerations about effective incidence and cost for non-beneficiaries; pro's and cons of demand- and supply-side may need to be considered
Demand elasticity	Income inelastic => relevant when pure income support: how much will be spent on housing
Private stock quantity	If not sufficient + slow supply response: demand-side subsidy will be captured by landlord + non-recipients will be negatively affected
Private stock quality	<ul style="list-style-type: none"> <li>- If quality of existing private stock too low: demand-side subsidy may not lead to affordable <i>decent</i> housing; supply-side subsidy more likely to result in new, good quality housing for low-income households</li> <li>- Extra cost if quality conditions attached: monitoring quality of rented stock</li> </ul>
Spatial issues of available stock	Spatial concentration of available stock, within price limits attached to subsidies
Type of private landlords	If many private individual landlords => not informed about profitability increases + not so likely to expand the number of properties if profitability increases => capacity to respond to demand-side subsidies needs to be considered
Welfare regime/history compatibility?	<ul style="list-style-type: none"> <li>- Typically</li> <li>- Liberal =&gt; rather demand-side</li> <li>- Social-democratic =&gt; rather supply-side</li> </ul>
Any instruments that would not be supported within the framework of welfare regime??	<ul style="list-style-type: none"> <li>- Historically the more socio-democratic systems would favour supply-side, non-profit while more liberal would favour private sector (and housing allowances)</li> <li>- More socio-democratic regimes tendency for universal subsidies while more liberal targeted (especially means-testing)</li> <li>- More socio-democratic systems tendency to smaller ownership sector and a larger (unitary) rental sector while more liberal regimes tendency to larger ownership sector and targeted (separated) social rental + targeted housing allowances</li> </ul>
Welfare regime/society reconsidered	Evolutions of welfare regime/society may need to be reconsidered and hence instruments too
Time dimension/urgency?	Situations may require urgent action and require (temporary) emergency measures; what is urgent is dependent on context and policy makers/advisors valuations; considerations of how fast instruments can have an effect
Other context considerations	Volatile interest rate movements, inflation, dwelling values, construction and maintenance costs, rental vacancy rates, rental yields, resident income levels and unemployment => decreases in income or increases in unemployment can inflate government costs when income-related support

### 8.1.5 The role of principles in instrument selection

Besides non-housing objectives and the context, also the principles adhered to by governments or stakeholders affect the choice of an instrument and the benefits and costs they attach to it. Table 8.5 presents an overview of principles and how explicitly adhering to them, affects instrument choice considerations. For example when adhering to the principle of allowing the most possible consumer choice, this would point in the direction of demand-side subsidies, but again, context issues affecting true consumer choice may matter.

**Table 8.5** Considerations of context and relevant criteria in the instrument selection process to tackle affordability problems

Considerations	Would lead to (4)
Freedom of consumer choice	<ul style="list-style-type: none"> <li>- Most freedom of consumer choice =&gt; demand-side untied cash</li> <li>- Less importance of freedom of consumer choice =&gt; demand-side tied cash</li> <li>- Lower importance of consumer choice=&gt; supply-side</li> <li>- Supply-side can be designed to better meet issues of consumer choice (choice-based lettings, see design)</li> <li>- Context (low supply of affordable decent housing) may restrict the effective consumer choice of demand-side beneficiaries</li> </ul>
Tenure neutrality	If tenure neutrality to be pursued => equal treatment of owning and renting
Vertical equity	Vertical targeting (to low-income HHs) important => both demand-side through means-testing but also supply-side through conditions good vertical targeting (but leakages if no reassessment of income)
Horizontal equity	All in equal need should receive equal subsidy => demand-side (not rationed, so all eligible can receive it); supply-side usually poor outcomes on horizontal targeting
How much targeting?	<ul style="list-style-type: none"> <li>- Too narrow targeting may lead to too little support</li> <li>- Characteristics of recipients to target on have different costs and consequences (e.g. cheaper to target on no. of children than on income which needs continuous testing)</li> <li>- All eligible receive or rationed subsidisation? Rationing may have lower financial cost but higher social cost</li> </ul>
Fair competition	<ul style="list-style-type: none"> <li>- Efficiency of players =&gt; competitiveness between all efficient suppliers</li> <li>- If fair competition between all types of providers (social/commercial) to be respected =&gt; supply-side not restricted to either group</li> <li>- Promoting locally social housing sector can crowd out private rental sector</li> </ul>

### 8.1.6 Considerations with respect to minimising costs and maximising benefits: design

In the last part, we present some elements of design of the subsidy that may minimise costs or maximise the benefits of the subsidy (Table 8.6).

**Table 8.6** Considerations of design in order to minimise costs and maximise benefits

Considerations	Would lead to
Universal or targeted support	<ul style="list-style-type: none"> <li>- Dependent on the situation analysis: what is causing housing affordability but influenced by welfare type regime:</li> <li>- More socio-democratic regimes tendency for universal subsidies while more liberal targeted (especially means-testing)</li> <li>- Targeting (means-testing) most cost-effective for improving affordability of low-income households</li> <li>- Targeting or universal both in private and social sector</li> </ul>
Direct or indirect/fiscal incentives	<ul style="list-style-type: none"> <li>- Demand-side: fiscal measures not well targeted and mostly regressive</li> <li>- Supply-side: good affordability effects in USA programme, limited effects in French programme</li> <li>- To avoid distortions of saving/investment behaviour =&gt; no ownership support</li> </ul>
Avoid work disincentives/poverty trap	<ul style="list-style-type: none"> <li>- Income ceilings not too low</li> <li>- Taper not too high</li> <li>- Also poverty trap issues in means-tested social housing</li> </ul>
Limit price effects where inelastic supply	<ul style="list-style-type: none"> <li>- Tied cash transfers not linked to actual rents but to regional indicator (average rent, median or other percentile rent)</li> <li>- Voucher system not linked to rents, only to income</li> <li>- Untied cash transfers (pure income support)</li> </ul>
Social housing design issues	<ul style="list-style-type: none"> <li>- Choice (see principles): choice-based lettings (<i>e.g.</i> Delft system)</li> <li>- Avoid spatial segregation + ensure access to services/transport =&gt; integrate in urban setting</li> <li>- Reassessment of eligibility to free up social housing for more needy but trade-off to avoid poverty traps</li> <li>- Prioritisation rules transparent and uniform across regions not to restrict mobility</li> </ul>
Risk	<ul style="list-style-type: none"> <li>- Recipients of benefits: will housing remain to be affordable? =&gt; demand-side subsidies more 'risky' than supply-side</li> <li>- Governments: potential expansion of housing claims when demand-side subsidies</li> <li>- How does system affect housing security</li> </ul>
Administrative costs/ Institutional capacity?	<ul style="list-style-type: none"> <li>- Demand-side subsidy more demanding, ongoing administrative process =&gt; large institutional/personnel cost</li> <li>- In case of quality requirements attached =&gt; even higher administrative cost</li> </ul>
Participation rates	<ul style="list-style-type: none"> <li>- Knowledge of entitlements =&gt; communication</li> <li>- Procedure: not too burdensome or cumbersome, relative to benefits</li> <li>- Considerations of stigmatisation</li> </ul>

### 8.1.7 Conclusion

Summarising, in order to move towards more cost-effective instrument choices, the different elements of the cost-effectiveness considerations will have to be made clearer. For each instrument the costs incurred per affordable dwelling will need to be compared. This will include not only the financial costs but also other costs for society (for example for non-recipients).

With respect to the benefits, all aims pursued, both explicit and implicit ones, will need to be made clear. Also indicators will need to be developed in order to follow up evolutions with respect to the aims.

An analysis of the situation of why the aims are not met, will indicate whether there are efficiency and/or equity problems. In turn, this will lead to suggestions based on welfare economics theory as to which are the instruments that will benefit efficiency and/or equity most.

But as we have seen, many contextual factors, including the welfare regime a country operates under, also affect the benefits and the costs of certain instruments. These will have to be revealed in

order to value the costs and benefits as completely as possible. Hence for example questions with respect to the potential of the private sector and the response of supply are relevant. But also questions on the importance of consumer choice, the expected support or the order in which problems need to be tackled are relevant because this will affect the expected benefits and costs of an instrument (set).

When all the potential benefits and costs are revealed and can be valued quantitatively (availability of data is crucial) each instrument (set) will have to be compared to another instrument (set) in order to eventually find the most cost-effective one. If there are no data available for ex ante cost-effectiveness estimations, data collection for future (follow-up) estimations may need to be considered. Additional to quantitative data, qualitative information can be used in the evaluation.

This process of selecting cost-effective instruments, including an analysis of the situation and an expliciting of aims and criteria deemed important, will make instrument choice considerations more complete and more transparent, leading to a well-founded proposal of policy instruments.

## **8.2 How to use the framework**

The framework described in this report contains an overview of criteria and goals one may want to take into account when evaluating policy instruments. It is based on a very extensive literature overview and the input of stakeholders. It can help to make explicit a list of considerations that are often taken into account implicitly and intransparently. Where data are available or can be collected (quantitative or qualitative), the impact of a policy instrument with respect to a (non-)housing goal or criterion can be made explicit. If data is lacking, the expected presence of a (positive or negative) effect can be taken into account.

The framework can be used independently or as an addition to existing evaluating systems such as a Regulatory Impact Analysis (RIA). In particular for the Flemish Housing Council, even though they often focus on a delimited subject, it was considered a useful toolbox as it offers an overview of the many issues that may play a role in the evaluation and their potential effects. It offers a possibility to revive the already existing but not so well practiced RIA, and to use both together.

Furthermore, to increase its use, the report is translated to a shorter, more practical version of the framework in Dutch. The use of this practical version of the framework can be evaluated which may lead to adjustments and potentially also translation into English for wider use.

Additionally, training moments can be organised on request by governments, sector organisations, consumer organisations or other stakeholders.

## **8.3 Recommendations for a cost-effective housing policy**

In order to move to a more cost-effective housing policy, a definition of cost-effectiveness is necessary. We have defined it as a policy with the largest possible benefits for society at the lowest possible societal costs given the budget available. To know what the benefits are, a clear definition of goals is required. All goals need to be made explicit, also the non-housing goals that can be relevant. Costs can also involve effects that are against the principles one adheres too, for example where effective incidences do not strike with universal or horizontal equity principles. Therefore the principles governments and stakeholders adhere to, need to be made clear as well.

Even though the principles one adheres to are linked to an ideology or a welfare system, the instrument choices can be made more objective and rational when the information or advice that guides the policy choices is based on evidence, whether or not from other countries. To make the instrument decisions as transparent and rational as possible it should hence be maximally be based on theoretical knowledge and data, and in consultation with stakeholders.

Governments should hence take the time to gather data and empirical evidence and for the consultations and discussions with stakeholders from the start of the process.



In the selection of instruments, the views should be broad and not restricted to historically grown or traditionally used instruments. There should be room to leave the path or rethink and explain the decisions taken before, or choose a completely new approach if that would result in higher benefits or lower costs for society.

As we have shown, also the context is important, but some aspects of the context are not known. For example, how elastic is supply or demand for housing, how well informed are individual private landlords (or potential landlords) about profitability, etc.

In the end, this pleads for more consultation and as early as possible in the process, more evidence and data collection and a structured way of using them in the process, to reach an evidence-based, inclusive and transparent way of deciding on policy instruments. As such the societal cost-effectiveness of housing policy can be improved, even though this might not lead to an agreement by all that the decision reached will be the only right decision.

#### **8.4 Lessons for more cost-effective social protection systems in the EU**

At least two important lessons can be learned from this exercise.

Firstly, it can be confirmed that housing is considered an important part of the social protection system. It is for example considered as an element contributing to social inclusion, poverty reduction or well-being. Therefore, a more cost-effective housing policy contributes to a more cost-effective social protection system.

Secondly, the question could be asked if a similar evaluation framework could also be useful for other policy domains such as health or well-being. Translating the framework in this report to other policy domains, based on theoretical and empirical literature in the relevant domain(s) as well as the stakeholders' input, is a recommendation for the future. This can also be a vehicle for better integration of the different domains. Especially domains that are linked, as is the case for example for housing, health and well-being could benefit from a similar approach that allows other (transversal) goals and views or criteria to play a role in the evaluation of instruments.

**- APPENDICES -**



# appendix 1 Report of academic workshop 'Towards cost-effective housing policies for Flanders and Europe'

## a1.1 Place and date

Leuven, 11-12 May 2015

## a1.2 Participants

Julien Dijol (Housing Europe), Marja Elsinga (OTB TU Delft), Veerle Geurts (Agentschap Wonen-Vlaanderen/Housing Agency Flanders), Marietta Haffner (OTB TU Delft), Kristof Heylen (HIVA-KU Leuven), Peter Kemp (Blavatnik School of Government, University of Oxford), Ruth Owen (FEANTSA), Michael Oxley (Cambridge Centre for Housing and Planning Research, University of Cambridge), Alice Pittini (Housing Europe), Jean-Pierre Schaefer (Commissariat Général à l'Egalité des Territoires, Conseil national des villes), Freek Spinnewijn (FEANTSA), Nóra Teller (Metropolitan Research Institute Budapest), Katleen Van den Broeck (HIVA-KU Leuven), David Van Vooren (Vlaamse Woonraad/Flemish Housing Council), Christine Whitehead (London School of Economics), Sien Winters (HIVA-KU Leuven).

## a1.3 Discussion based on presentations (abstracts of presentations see further)

**Presentation 1:** Demand versus supply side housing policies: the choice of policy instruments (Michael Oxley)

Conclusion: formal versus effective incidence of the subsidy is an empirical issue and involves modelling (for example where households are entitled to a subsidy but due to inelasticities the landlords benefit too).

Only when the condition of full info is satisfied, one can separate out efficiency and distribution goals. As more than 1 thing is wrong with the world, this distinction is impossible and one has to move towards a 2<sup>nd</sup>-best framework.

The role of ideology in the choice of instruments (versus the technical choice as put forth by Barr) is important. Ideology cannot be taken out completely from the choice of instruments. Policy choice should as much as possible be evidence-based and should use principles. But it is difficult to separate out what is positive (technical) or normative (ideological). Policy objectives and the context are important: Policy instruments work differently in different contexts; can you rationalise effects of instruments, given policy aims? In the latter respect policy objectives need to be clear. However, in reality some of the objectives are rather implicit such as the home ownership objective in some countries (including Flanders).

**Presentation 2:** The role of private renting in housing low-income households (Peter Kemp)

Conclusion: the perception for the need of (strong) housing security by tenants differs per context. See differences between situation in England and Germany: almost no security versus strong security for tenants. Furthermore, where German landlords act more on a long term, in Britain the growth of

homelessness is to a large extent explainable by non-renewal of leases by landlords. The British one is a very volatile housing market and many invest for capital gains and not for letting; context therefore matters tremendously. Furthermore, the PRS and SRS are different markets, there are different skills required to manage PRS than to manage social housing. Last, but not least, housing markets are about social phenomena. Changes in regulation are difficult to implement, if landlords and tenants don't understand the regulation, and therefore may not behave as predicted

**Presentation 3: Why Social Housing? (Christine Whitehead)**

Presentation: traditionally social housing was considered a supply-side approach and mostly rental. However, there have been many changes over time and nowadays it includes also demand-side subsidies and many different tenure forms and financial innovations. Thus underlying goals of social housing have shifted. Different social housing models can exist but it seems that social housing is converging towards having more or less the same role in all countries: housing the poorest or most vulnerable households. For the future, does social housing have a continuing role? Comparative advantage is an important concept here: in the past it consisted of cheap land; social housing is surprisingly resilient; it has a capital base and therefore options to diversify; can someone else (PRS?) do the job? Is cost-effective housing policy defined in cost or value terms?

Conclusion: Questions are concerned with whether there providers of social housing need to compete (*cf.* EU competition law) and whether social housing needs to be concentrated on those who are accommodated (=those who have few options). A very big issue here is the question on what the comparative advantages of social housing are. Before being able to answer this question a definition of 'house' is needed and which services come with it (one view is that social housing providers do more than only providing a house, they may also offer many services beyond that). On the other hand, the issue of choice comes in (what do people want?). So the big question in the end is why social housing is needed, otherwise questions on efficiency, effectiveness and cost-effectiveness cannot be answered. Therefore, the objectives need to be clear (what is social housing expected to provide, i.e. mere housing or additional services) including the time-period over which cost-effectiveness need to be considered.

**Presentation 4: Linkages of homelessness and housing policy tools with a view of their cost effectiveness - options to draw on lessons from cost-effectiveness analysis from homeless-research (Nóra Teller)**

Conclusion: Homelessness is a problem of access to and housing security in all three housing sectors, private and social rental sectors and ownership occupation. Deregulation and commodification will lead to more vulnerabilities (in relation to tenant security and discrimination, for example). With respect to cost-effectiveness, cost studies show that Housing First initiatives are less costly than the staircase model. Ensuring access to housing seems crucial but still fails for some people.

**Presentation 5: The distributional aspect of housing policies (Kristof Heylen)**

Conclusion: Definition of subsidy needs to be clear. Distributional effects (and the effective incidence) of subsidies are important for cost-effectiveness considerations.

**Presentation 6: Cost effective housing policy, a glimpse at housing policy in France (Jean-Pierre Schaefer)**

Discussion: With respect to housing and social policy, is it possible to change a component without moving the others? What matters is the totality of the system, not the effect of each bit.

## **a1.4 General discussion**

### **Ideology**

It seems impossible to fully disentangle ideology and technical choices of both policy goals and policy instruments.

It should be recognised that the aims of housing policy are often determined by other policy areas such as economic growth, pensions or labour market. Moreover, the key debates in housing policy such as on home ownership and social housing are highly ideological/political.

In the revision of the paper an attempt can be made to demonstrate that it is possible to rationalise ideologies in the discussion on housing policy to a certain extent.

### **Government objectives: ideology and non-housing objectives (and impacts)**

The government objectives are assumed to contribute to social welfare and are partly determined by ideology (and influenced by stakeholders) when social justice is concerned and partly by market efficiency concerns.

Models on which government objectives can be based could include the Human Rights model (housing as a human right in the Universal declaration of Human Rights, European Social Charter, and many Constitutions/Housing Codes). This leads to the core housing policy goals of access, affordability, quality (adequacy and security).

It is useful to focus on access, affordability, quality as generally accepted outcomes of housing policy. Statistics are available which allow a comparative European framework. But on the other hand, also non-housing aims lie in the background during discussions on the choice of housing policy instruments. It can be one of the problems in discussions between stakeholders that explicit housing policy objectives are interwoven with these other objectives that are not made explicit. In many countries housing policy is not only meant to serve housing policy goals but serves (sometimes implicitly) also goals in other fields, such as pensions, the labour market, economic growth, social policy, quality of life. Making these non-housing objectives visible and part of the discussion can contribute to disentangling ideology from rational choices.

Also when doing cost-effectiveness analyses (see further), both the explicit and the implicit government objectives and the impact of housing policies on these non-housing domains are important. So here too, the non-housing impact of housing policy appears in the discussion. Also their impact needs to be taken up in cost-effectiveness analyses (for example with respect to the positive effects of good quality housing on health and educational outcomes) to get a (more) complete picture. Some effects are less clear or only presumed to be there (for example has social housing a positive or negative effect on social inclusion?), but at least they are more and more accepted to be non-zero. Again, making these effects visible or measurable can contribute to the discussion.

### **Time dimensions and prioritisation**

Housing objectives can be considered urgent or not so urgent or relatively more or less important. As policy objectives are often multi-dimensional, a weighting of objectives might therefore be necessary in order to be able to make a choice on the (set of) policy instruments. The weight attached to each of the policy goals can differ according to the position one takes. At cross-country level, it may for example be linked to the type of welfare regime. So also the relative importance or weight of the policy objectives could be made explicit in order to rationalise the choice of the instruments. Furthermore, the time dimension chosen affects choices (discounting).

### **Policy instruments: ideology and context**

There is a myriad of instruments available which can be divided in financial policies, regulatory policies and communicative policies. Besides the traditional ones, there is a need for more creative housing instruments. Also the role of the local government could be considered more as they also take decisions on (local) housing policy.

There seemed to be consensus that the choice of instruments cannot be made merely technical in practice and, similarly to policy objective choice, instrument choice seems also to be driven by political preferences, finding again their origin in ideology.

One of the main points to be considered here is who will benefit from the government intervention both in the short and in the long run (and the difference between the formal and effective incidence of the subsidy). With respect to the formal incidence, the issue of targeting is relevant, and is often a highly ideological choice. Effective incidence might differ from formal incidence (due to *e.g.* supply elasticities).

One of the difficulties not mentioned so far is that outcomes of policy instruments will strongly depend on the context and also this should be taken into account when making instrument choices. Examples of context variables that might play a role in the impact and hence the choice of a certain instrument can be: (1) a country's welfare regime and history; (2) the potential of the social and private rental sector (magnitude and the quality of the existing capital base); (3) the type of private sector (residential landlords with one or a couple of houses to rent or institutional providers); (4) short- and long-term supply elasticities; (5) economic and labour market situation; etc.

### **Social housing**

Is it merely an instrument of housing policy? If not, the non-housing element of social housing (the activities beyond bricks and mortar) should deserve more attention. But this is difficult to measure. There is a lack of systematic measuring mechanisms. Also targeting becomes a different matter when looking at a broader range of activities. An indicator of the effect of having specialised entities (instead of having *e.g.* housing vouchers) is necessary to measure cost-effectiveness of social housing.

### **Homelessness**

Housing related support should get more room.

Targeting? None of the social housing companies addresses the problem of homelessness.

### **Evidence-based**

The eventual framework for instrument appraisal should include evidence-based efficiency and cost-effectiveness considerations. There needs to be a mechanism to ultimately persuade the Treasury. Cost-benefit analyses ('value for money') need to be part of the decision on which policy instruments to use. As such it can also break reasoning of the kind: 'we are used to this or that (policy)' (and path dependence), or, 'certain policies should not be used because they are supposed to have this or that effect' (referring *e.g.* to housing allowances and the supposed unemployment effects).

Evaluations done so far are plentiful but usually on a small and focused scale (partial evaluations). The framework could add with respect to the overall evaluation of housing policy, including all the instruments together.

Measuring is not always straightforward and there are a lot of data requirements. Especially the measurement of benefits is not straightforward: some can be measured but for others it is not possible to attach a value to.

What could be used to measure effects? References were made to the quality adjusted life years indicator (QALY, for example in Knapp, 2015) or the well-being valuation approach (recently used by Fujiwara and HACT, 2013). But also other methods and tools are available (see Kraatz *et al.*, 2015).

### **Development of the framework and its application**

Once the framework is developed, it should be applied to only a few points of interest (for Flanders), *e.g.* distributional impact or affordability (develop the theory and then make a case-study).

Can the framework developed also be used to check if the recommendations from institutions (OECD, IMF, ...) hold?

Does the framework allow for the development of more creative housing policies?

### **Conclusion**

The most important points were: the importance of ideology and context and how government objectives, both explicit and implicit ones, would benefit from being made more visible in the policy discussions. Also the time dimension and the prioritisation of policy objectives deserve attention. Not one instrument in itself is what matters, but the whole housing policy system.

## **a1.5 Abstracts of presentations**

### **Presentation 1:** Demand versus Supply Side Housing Policies: the choice of policy instruments (*Michael Oxley*)

This presentation will concentrate on the pros and cons of demand and supply side housing policy instruments. It will consider the criteria which might be used in making a relative judgment. It will also make a distinction between 'pure' and 'conditional' forms of each subsidy and argue that the conditions are of great importance in understanding the purpose and outcomes of the intervention. The choice of instruments will be linked to objectives including affordability and production goals. The presentation will argue against the stance taken by Barr, and quoted in the discussion paper: 'while the choice of the aims (for example defining what is a socially just outcome and how much weight do efficiency and equity aims receive) is an ideological one, the choice of the methods will be a technical one' (Barr, 1993). More broadly there will be an attempt to link the demand v supply side approaches to two issues that might usefully attract more importance than they are given in the discussion paper. These are (1) the role of ideology (including the distinction between normative and positive prepositions and the distinction between individual and collective well-being) and (2) the importance of the incidence of subsidies (and formal versus effective incidence).

### **Presentation 2:** The role of private renting in housing low-income households (Peter Kemp)

This presentation will draw on the conceptual framework to look at the role of private renting in the provision of housing for low-income households. It will particularly focus on this role in relation to what the conceptual paper referred to as the three core goals of housing policy: accessibility, affordability and adequacy. In doing so, it will examine whether private renting exhibits market failure (imperfect competition, imperfect information, negative externalities), inequity or government failure in relation to housing provision for low-income households; and, if it does, whether that inhibits the ability of private renting to provide accessible, affordable and adequate housing for this group of households.

### **Presentation 3:** Why Social Housing? (Christine Whitehead)

What do we mean by social housing? Different definitions and their implications

Does it always involve supply? Rental? –European versus world context

Varying foci– housing investment overall; housing for particular groups of people; housing standards; additional services, alleviation of housing poverty etc.

Relationship to more fundamental objectives of efficiency, distribution, but also political attitudes; government's own objectives;

Changing emphasis over time and under different housing conditions;



Different models within the European system - are they converging?  
The conditions under which there might be a continuing role for social housing.

**Presentation 4:** Linkages of homelessness and housing policy tools with a view of their cost effectiveness - options to draw on lessons from cost-effectiveness analysis from homeless-research (Nóra Teller)

Housing policies largely fail to address issues of households facing homelessness, this most extreme form of housing exclusion, and in many member states dealing with homelessness falls under the realm of social service delivery rather than being addressed in the framework of housing policies. One of the explanations is that many times homelessness is intersected with issues that would fall under the competence of other policy fields like health, welfare and labour market, etc.

Therefore, comparing effectiveness of selected housing policy tools in terms of tackling homelessness should be complemented by drawing on further tools' cost effectiveness analysis in order to more comprehensively address the preconditions of successful tackling of homelessness.

In the discussion I intend to present (1) some bottlenecks housing policy may face when it addresses homelessness, i.e. by (theoretically) offering access to social housing or other tenures, (2) lessons drawn from recent research on actual costs of homelessness in the framework of long-term solutions vs. short-term policies, and (3) selected adverse effects that may be created by housing policies contributing to an increase of homelessness.

**Presentation 6:** Cost effective housing policy, a glimpse at housing policy in France (Jean-Pierre Schaefer)

Demand side and supply side subsidies have been used in France for enhancing quality and quantity of housing supply, covering the three main sectors of the market: owner occupation, social rental and private rental. Fiscal rebates have been more and more used, especially for developing private Buy to rent schemes, notwithstanding (for a while) aid for owner occupier while social rental sector was by and large a permanent concern whatever the various political parties at power. Altogether, this brought new production of housing to a rather high level, compared with other members of the Union. Nevertheless, the specific situation of the capital region (one fifth of the country population) still encounters a strong housing crisis, while other territories enjoy more balanced housing markets. The question of homelessness and the way it is tackled by State and local authorities could be described with its advances and its setbacks.

## appendix 2 Quantity effect of price subsidies

The figures show that the quantity effect of price subsidies (and the financial cost attached to it) is the same for the case of producer or consumer price subsidies. So in case the goal is to improve access caused by a shortage of supply, or in other words, to increase supply, equality of producer and consumer price subsidies hold. However, in case other considerations play a role, for example affordability, the price effects may play a role in the decision as well.

Figure a2.1 Effect of price subsidy to suppliers

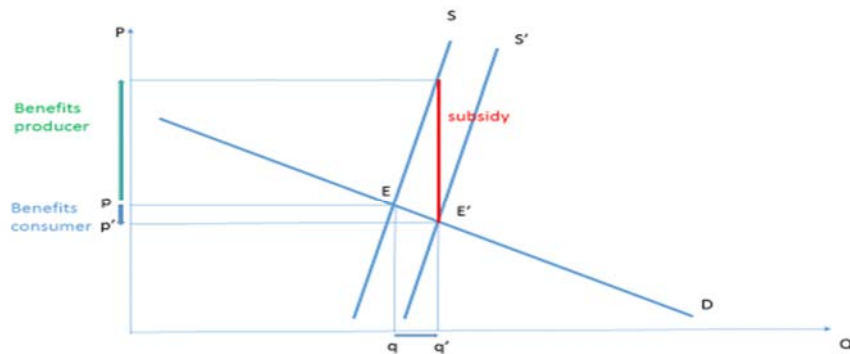
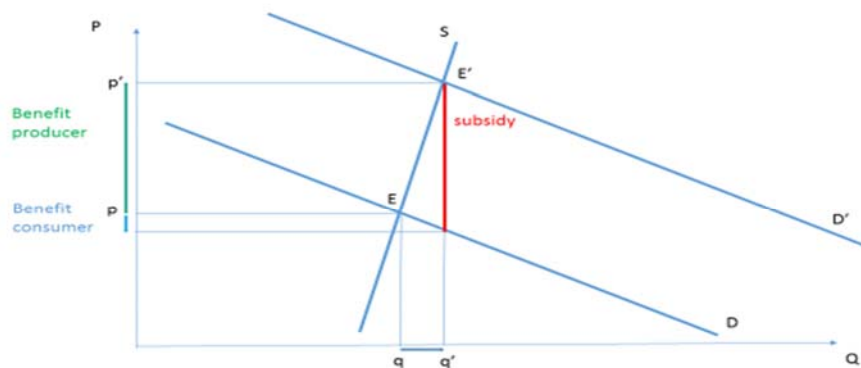


Figure a2.2 Effect of price subsidy to consumer





## appendix 3 Questionnaire stakeholder websurvey

### a3.1 Welcome/introduction

Dear respondent,

We would like to invite you to take part in the following survey organised amongst stakeholders of housing policy.

The survey is part of the stakeholder consultation within the project 'Towards a cost-effective housing policy for Flanders and Europe'. This project is funded by the EC (under the PROGRESS call 'Support for the design of reform strategies for more cost-effective social protection systems') and Housing Agency Flanders. For more information, see:

<https://www.wonenvlaanderen.be/woononderzoek-en-statistieken/towards-cost-effective-housing-policy-flanders-and-europe>

The main question to be addressed is which policy instruments respond most cost-effectively to housing needs, especially of those households at risk of poverty and social exclusion. The project entails the development of a conceptual framework for the comparison of a range of policy instruments addressing housing needs against a background of cost-effectiveness considerations. Concerning cost-effectiveness, we look at the relationship between outcomes and inputs. An intervention is called more cost-effective if a lower amount of inputs is used to obtain the same level of outcomes or it is called more cost-effective if better outcomes are achieved with the same amount of inputs.

The development of this concept is based in first instance on theoretical and empirical literature on the choice and effects of housing policy instruments. The second part involves a consultation with policy makers and stakeholders. This consultation starts with a survey aiming to picture the position of different stakeholders in the discussion. In a next step, we will use this as an input for an upcoming stakeholder workshop.

So we would like to invite you to fill in the survey. It will take around 10 minutes of your time.

Thank you for your participation.

## a3.2 Questions

### Respondent information

1. Contact person name:
2. Contact info:
3. Organisation name:
4. Who does your organisation represent? (*more than one answer is possible*)

1.Private tenants	
2.Social tenants	
3.Private landlords	
4.Homeless people	
5.Developers/constructors	
6.Government	
7.Social welfare organisations	
8.Other	
If other: whom	

### Importance of housing policy goals

5. According to your organisation, what is the importance of each housing policy goal listed below? (*in each row, only one answer possible*)

	A most important goal	A goal of secondary importance	Not a main issue	No opinion
1.Ensuring sufficient availability of dwellings				
2.Ensuring equal access and equal opportunities to housing/promoting housing inclusion				
3.Ensuring housing security				
4.Ensuring good quality of dwellings and neighbourhoods				
5.Improving affordability				
6.Promoting home-ownership				
7.Improving sustainability of housing (energy efficiency and environmentally sustainable housing)				
8.Other				
If other: describe				

### Improving affordability through public financial support

Now we would like to focus on the goal of improving affordability through the use of public financial support.

6. Concerning **public financial support to improve affordability**, which sector should be most advantaged according to your organisation? (*only one answer possible*)

1. Rental sector in general	
2. Social rental sector	
3. Private rental sector	
4. Owner occupation	
5. Need a neutral treatment of renting and owning	
6. No opinion	

### Financial support to improve affordability in the rental sector

Now we would like to focus on the goal of improving affordability in the rental sector (through the use of public financial support).

7. If **public financial support to improve affordability in the rental sector** is available, in order to be most cost-effective, should the subsidy according to your organisation be targeted towards (*only one answer possible*)

1. The demand-side (for 'consumers' of housing, the renters)	
2. The supply-side (for producers/providers of housing)	
3. To both demand- and supply-side	
4. No opinion	

### Demand-side subsidies to improve affordability in the rental sector

Now we would like to focus on the goal of improving affordability in the rental sector through the use of demand-side subsidies (subsidies to the renter) (which can or cannot be combined with supply-side subsidies discussed later)

8. Concerning the use of **demand-side subsidies to improve affordability in the rental sector**, should these according to your organisation be linked to income? (*only one answer possible*)

1. Yes, but only highest income groups excluded	
2. Yes, strictly targeted towards lowest income groups	
3. Yes, other income conditions	
If other, which ones:	
4. No	
5. No opinion	

9. Concerning the use of **demand-side subsidies for improving affordability in the rental sector**, should these according to your organisation be linked to household characteristics (other than income)? *(only one answer possible)*

1. Yes, should be linked to household characteristics	
If yes: which one(s)	
2. No	
3. No opinion	

10. Concerning the use of **demand-side subsidies for improving affordability in the rental sector**, should these according to your organisation be linked to dwelling characteristics? *(more than one answer is possible)*

1. Yes, available only when renting decent housing (=meeting minimum quality requirements)	
2. Yes, available only when renting dwellings rented out below the market rent	
3. Yes, available only when renting energy-efficient dwellings	
4. Yes, available only when renting dwellings with yet other characteristics	
If yes: which ones	
5. No	
6. No opinion	

11. Concerning the use of **demand-side subsidies for improving affordability in the rental sector**, should these according to your organisation be linked to characteristics of the owner of the rental unit? *(more than one answer possible)*

1. Yes, available only when renting social housing	
2. Yes, available only when renting in the private sector	
3. Yes, available only when renting accommodation where other characteristics of the owner hold	
If yes: which ones	
4. No	
5. No opinion	

12. Concerning the use of **demand-side subsidies for improving affordability in the rental sector**, should these according to your organisation be linked to allocation rules of the dwelling? With 'allocation rules' we mean that the government sets rules for allocating dwellings to households (administrative allocation). *(only one answer allowed)*

1. Yes, receiving the subsidy should be conditioned on the existence of a dwelling allocation mechanism set by the government	
If yes. Any specifics about allocation mechanism?	
2. No	
3. No opinion	

## Supply-side subsidies to improve affordability in the rental sector

Now we would like to focus on the goal of improving affordability in the rental sector through the use of supply-side subsidies (subsidies to the producer/provider of housing) (which can or cannot be combined with demand-side subsidies)

13. Concerning the use of **supply-side subsidies to improve affordability in the rental sector**, should these according to your organisation be linked to the characteristics of the suppliers (housing providers)? *(more than one answer allowed)*

1. Yes, to private landlords	
2. Yes, to not-for-profit professional organisations	
3. Yes, to for-profit professional organisations	
4. Yes, to alternative initiatives such as co-operatives or Community Land Trusts	
If alternative initiatives, which type?	
5. Yes, to other type of providers	
If other: which?	
6. No	
7. No opinion	

14. Concerning the use of **supply-side subsidies to improve affordability in the rental sector**, should these according to your organisation be linked to the characteristics of the dwelling? *(more than one answer allowed)*

1. Yes, for decent housing	
2. Yes, for dwellings rented out below the market rent	
3. Yes, for dwellings of a certain type (small, single-family, etc.)	
If yes, which type?	
4. Yes, for energy-efficient dwellings	
5. Yes, for other dwelling characteristics	
If yes, other: which ones	
6. No	
7. No opinion	

15. Concerning the use of **supply-side subsidies to improve affordability in the rental sector** should the subsidy according to your organisation, be linked to the allocation rules of households to dwellings set by the government (administrative allocation)? *(only one answer allowed)*

1. Yes, only when allocation rules apply	
If yes: which allocation mechanism	
2. No	
3. No opinion	



16. Besides brick-and-mortar **supply-side subsidies to improve affordability**, should the subsidy be linked to offering other (guidance) services besides housing (for example assisting people accessing training or jobs, care for the elderly, ...) according to your organisation, and why? (*open question*)

#### Importance of contextual factors

17. Concerning the choice of policy instruments **for improving affordability in the rental sector**, are there any elements of the context that according to your organisation, need to be taken into account when making a choice and why? Contextual elements can include a very inelastic housing supply (i.e. supply of housing not very responsive to prices), the characteristics of the private sector (for example more or less institutionalised), the working of other markets (for example the land or credit markets), the macro-economic conditions (bad or insecure conditions), demographic conditions, the welfare regime a country operates under, the history of policy instruments, etc.... (*open question*)

#### Cost-effectiveness motivation of your choices

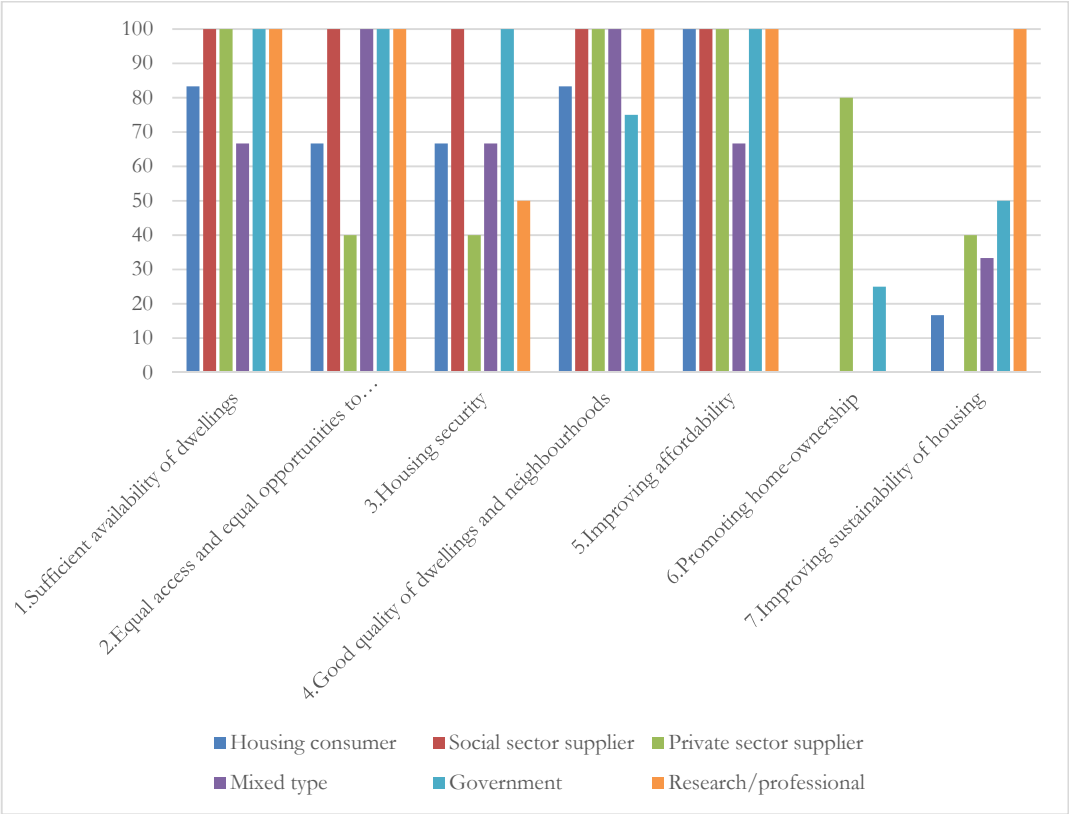
18. Can you motivate the choices you made above with respect to subsidising the demand- or supply-side, the targeted sector or households or the conditions attached to receiving the subsidy with cost-effectiveness arguments, i.e. why would your choices be the most cost-effective ones? (*open question*)

19. Any other remarks? (*open question*)

# appendix 4 Analysis of websurvey results by type of stakeholder

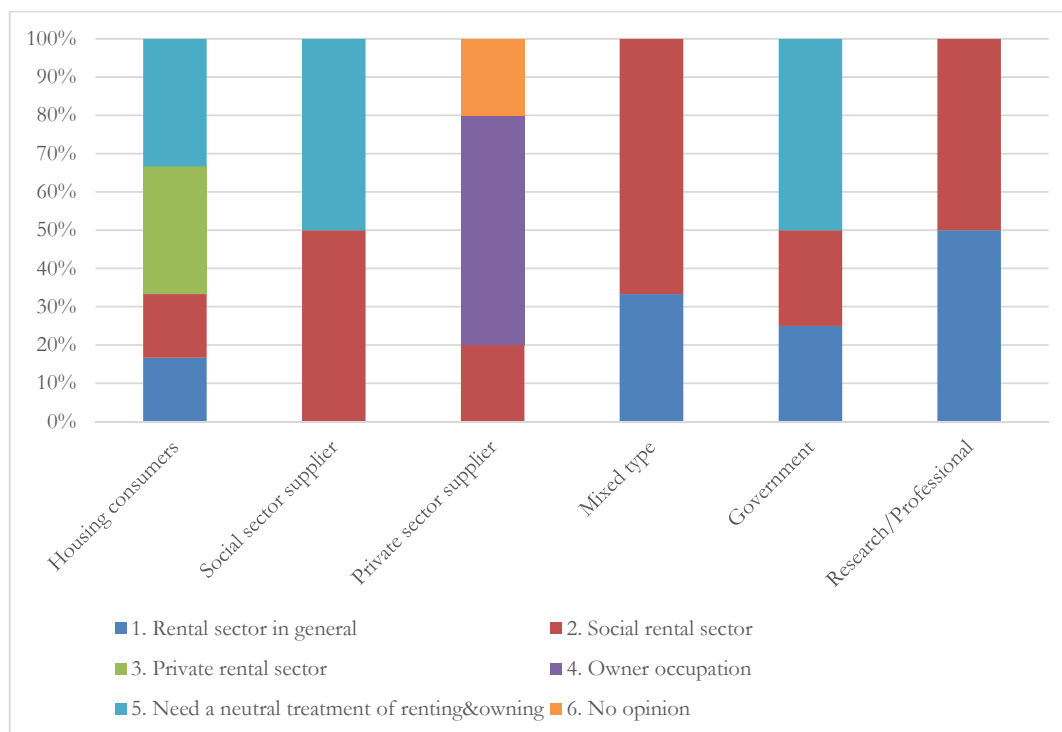
## a4.1 Goals

Figure a4.1 % perceiving goal as a most important issue, by type of stakeholder, N=23



Source: stakeholder websurvey

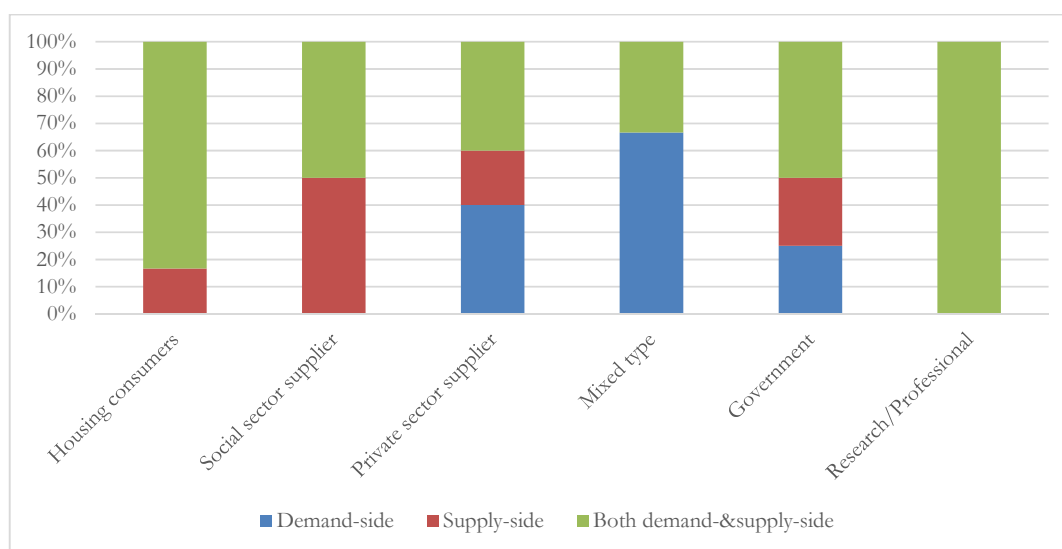
**Figure a4.2** Sector to be most advantaged in order to improve affordability, by type of respondent, N=23



Source: stakeholder websurvey

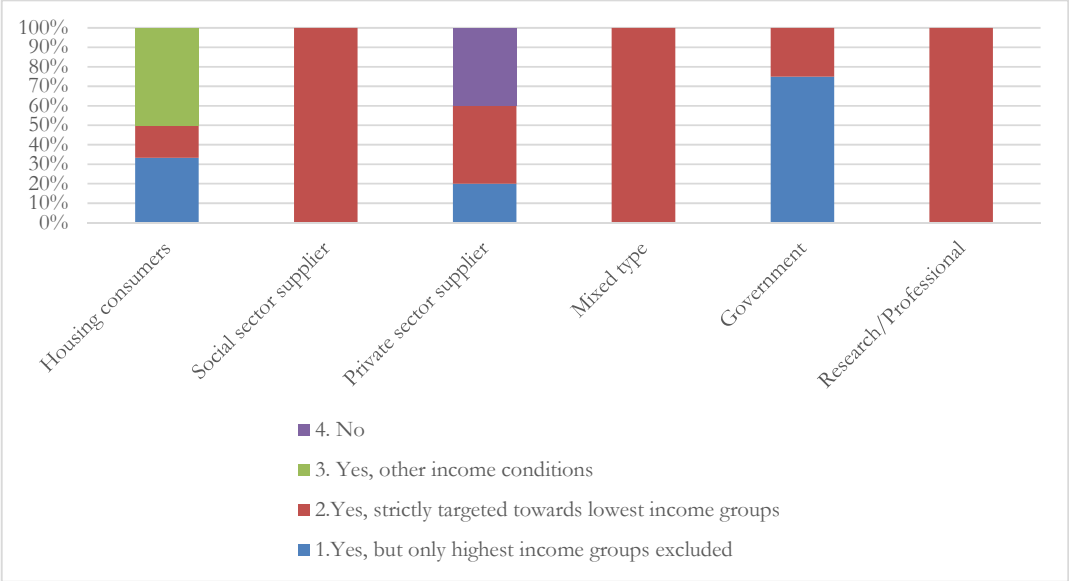
## a4.2 Instruments

**Figure a4.3** Support demand-and/or supply-side in order to improve affordability, by type of respondent, N=23



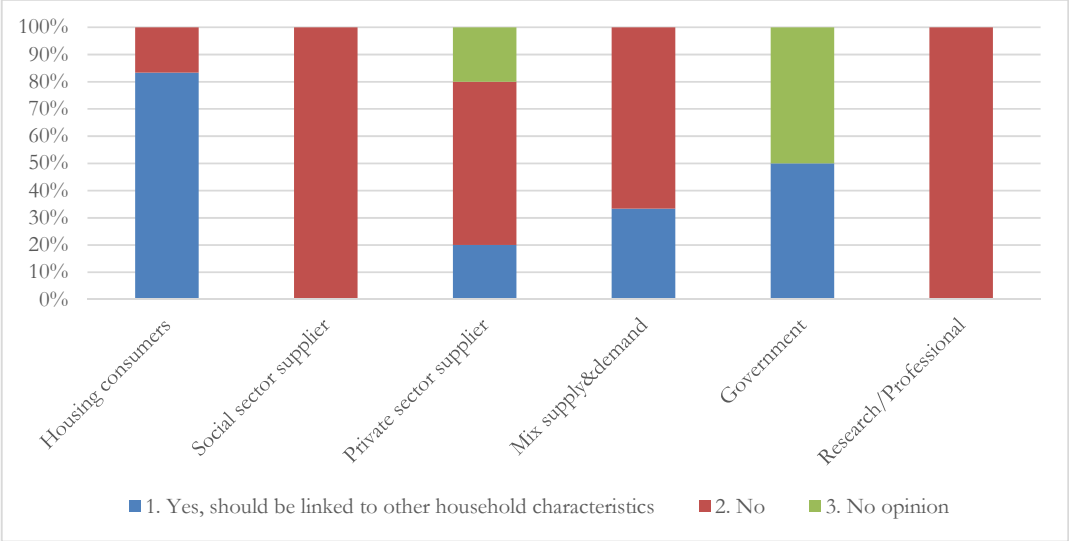
Source: stakeholder websurvey

Figure a4.4 Income conditions and demand-side support, by type of respondent, N=22



Source: stakeholder websurvey

Figure a4.5 Household conditions (not income) and demand-side support, by type of respondent, N=22



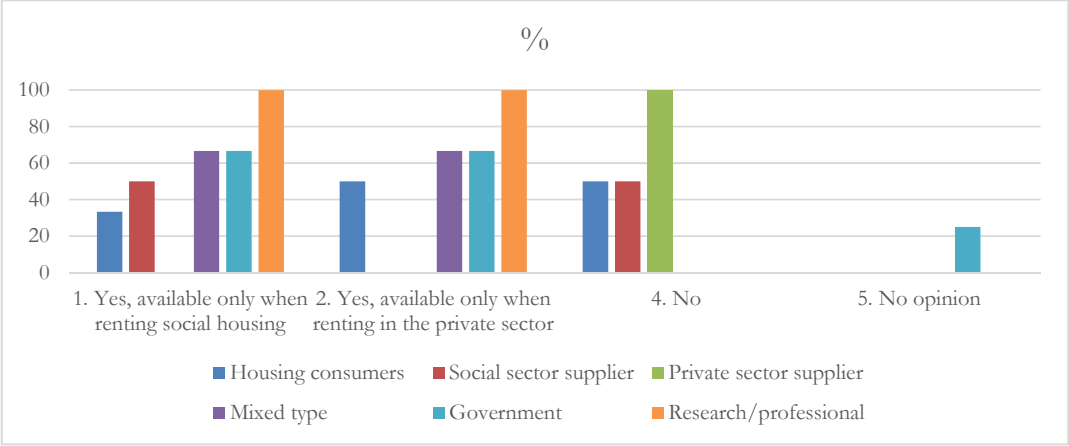
Source: stakeholder websurvey

Figure a4.6 Dwelling conditions and demand-side support, by type of respondent, N=23



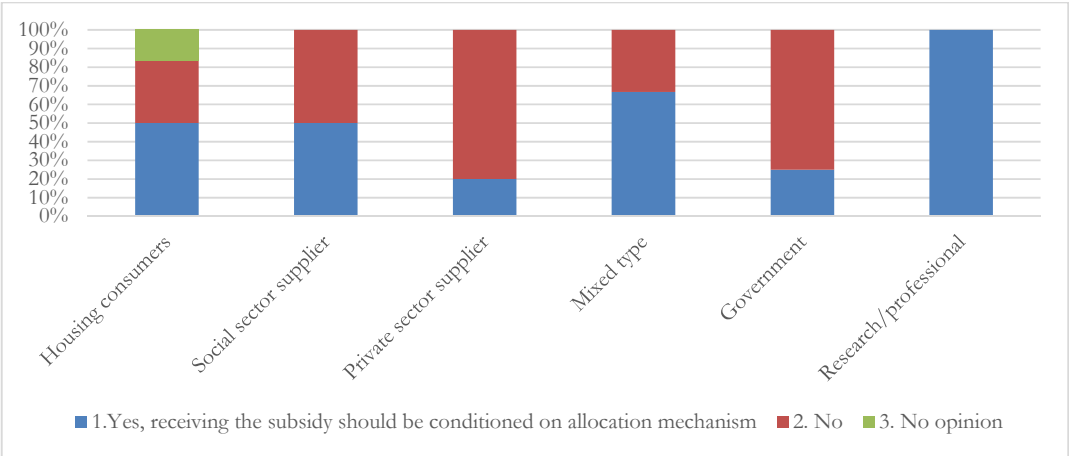
Source: stakeholder websurvey

Figure a4.7 Owner of rental dwelling conditions and demand-side support, by type of respondent, N=23



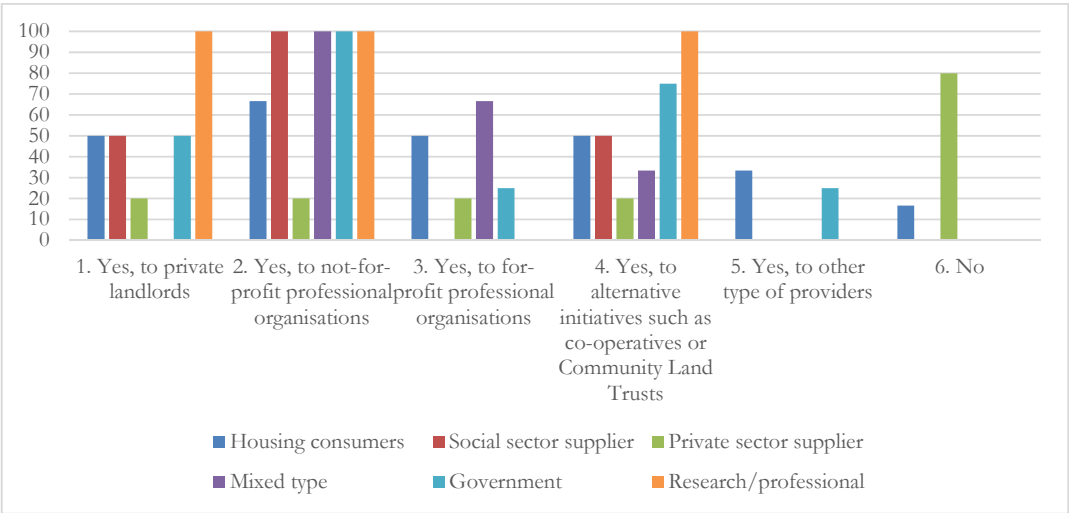
Source: stakeholder websurvey

Figure a4.8 Allocation mechanisms and demand-side support, by type of respondent, N=22



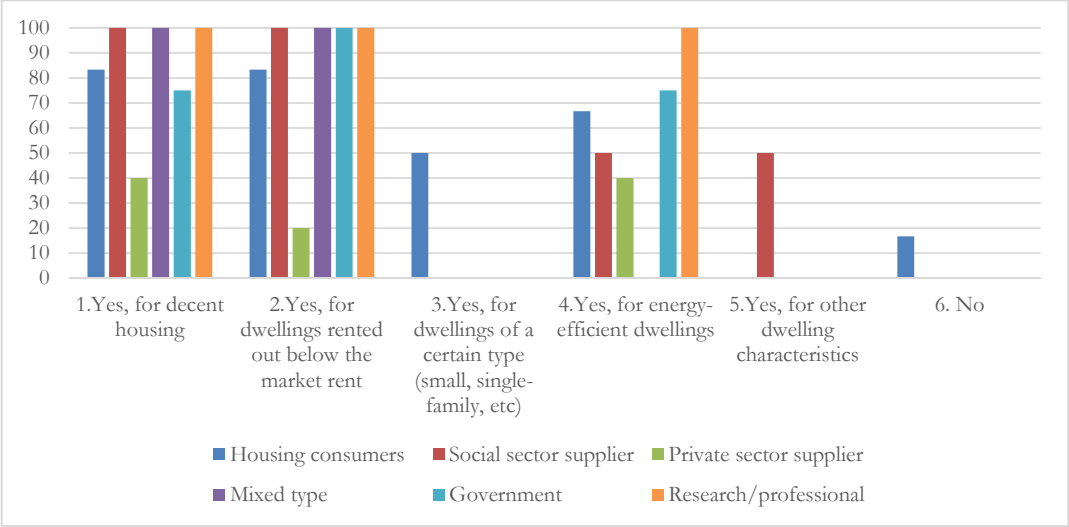
Source: stakeholder websurvey

Figure a4.9 Characteristics of suppliers and supply-side support, by type of respondent, N=19



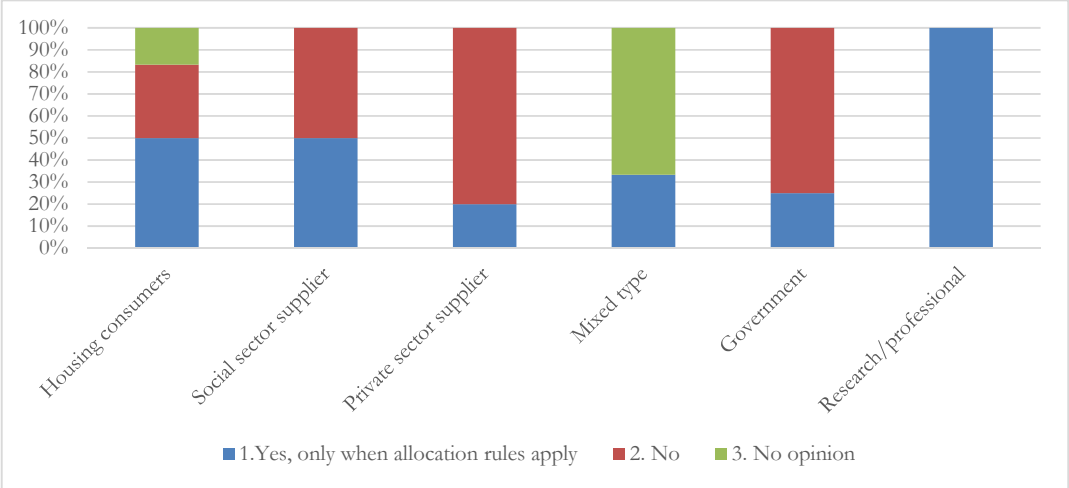
Source: stakeholder websurvey

Figure a4.10 Characteristics of dwellings and supply-side support, by type of respondent, N=23



Source: stakeholder websurvey

Figure a4.11 Allocation mechanisms and supply-side support, by type of respondent, N=21



Source: stakeholder websurvey

## appendix 5 List of participants workshops

### a5.1 International stakeholder workshop, 24/02/2016

Name	Organisation
Frederic Aertsens	UEPC
Sorcha Edwards	Housing Europe
Agata Krause	Housing Europe
Edit Lakatos	Housing Europe
Luc Laurent	FLW/RHF
Filiep Loosveldt	UEPC
Özgür Öner	GdW
Julien Dijol (moderator)	Housing Europe

### a5.2 Flemish stakeholder workshop 1, 03/03/2016

Name	Organisation
Lies Baarendse	HUURpunt (Federation of Social Rental Agencies in Flanders)
Gert Huybrechts	VCB (Flemish Construction Confederation)
Geert Inslegers	Vlaams Huurdersplatform (Flemish Tenants Platform)
Leen Smets	Samenlevingsopbouw (Society Development)
Pol Vandamme	Vlaamse Woonraad (Flemish Housing Council)
David Van Vooren (moderator)	Vlaamse Woonraad (Flemish Housing Council)

### a5.3 Flemish stakeholder workshop 2, 19/04/2016

Name	Organisation
Björn Mallants	Vereniging van Vlaamse Huisvestingsmaatschappijen (Association of Flemish Social Housing Companies)
Frank Vandepitte	Samenlevingsopbouw (Community Development)
Bernard Hubeau	Universiteit Antwerpen (University of Antwerp)
Joris Deleenheer	Vereniging van Vlaamse Steden en Gemeenten (Association of Flemish Cities and Municipalities)
Pol Vandamme	Vlaamse Woonraad (Flemish Housing Council)
David Van Vooren (moderator)	Vlaamse Woonraad (Flemish Housing Council)





## appendix 6 Two-day conference agenda

### a6.1 Day 1 (targeted at international stakeholders)

#### **Cost effective housing policies in the European Union**

Venue: Committee of the Regions – Room JDE-51

Date: 20/06/2016

Language FR-EN-DE

***Moderation of the conference: Julien Dijol, Deputy Secretary General, Housing Europe***

#### **9.15: Introduction**

Housing policies and the challenges for regions and cities, by M. Andres Jaadla, Member of the Committee of the Regions, member of the Board of Housing Europe

#### **Morning Session: How to improve cost-effectiveness of housing policy?**

#### **9.30 – 9.45: Real time poll session 1**

##### ***Questions related to the housing situation:***

- *In which country is housing overburden rate the highest/lowest?*
- *Which country spends the most on housing policies?*
- *Which country has the most social housing?*

##### ***Questions related to the policy goals***

- *Which housing policy goal is of utmost importance (multiple choice of housing goals)?*
- *How can we solve the problem of homelessness in the coming years?*
- *Should/can housing policies serve other purposes?*

**10.00: Presentation of the final report on cost effective housing policies in Flanders and in Europe**

Katleen Van den Broeck (KU Leuven), Marietta Haffner (TU Delft) & Sien Winters (KU Leuven)

**10.30 – 10.45: Real time poll session 2**

***Questions related to the policy instruments?***

*- Can we get rid of social housing providers and instead promote housing vouchers for instance?*

***Questions on cost-effectiveness***

*-Is cost-effectiveness an important criterium in policy instrument selection?*

*-How can we move towards more cost-effective policies? Examples of questions could be: tools such as the framework (Y/N), more stakeholder participation in policy-making (Y/N)/more co-production in policy making by government, stakeholder, researchers (Y/N), more data-collection (Y/N)*

**10.45: Coffee break**

**11.15: Presentation and Panel Discussion on cost-effective housing policies (7' per discussant + 15' questions)**

- Marc Uhry, Fondation Abbé-Pierre (France), *the European report on housing exclusion*
- Andrea Meszaros, Policy Officer Social Investment Strategy Unit, DG Employment, European Commission, *the place of housing in the EU social investment strategy*
- Agata Krause, Research Co-ordinator, Housing Europe, *the influence of planning rules on affordable housing*

**12.30: Lunch break**

**Afternoon session: examples of national reform of housing policies**

**Recent developments in national housing policies in Europe**

**14.00-14.20:** Presentation by Marietta Haffner, TU Delft: Recent developments in private renting

**14.20:**

The speakers are asked to discuss the following issues in their talk:

What are the explicit/implicit housing policy objectives?

Description of the policy change process?

How were the policy instruments chosen?

**14.20: France**

Presentation by Ms Carine Puyol, Policy Officer, Union Social pour l'Habitat and Ms Virginie Toussain, Legal Advisor, Union Social pour l'Habitat

**15.05: United Kingdom**

Presentation by Christine Whitehead, Emeritus Professor of Housing Economics, London School of Economics: Incentivising Institutional Investment in the Private Rented Sector in England

*Reactions by:*

- Kathleen Kelly, National Housing Federation (UK)
- John Slaughter, Home Builders federation (UK)

**15.50: Coffee break**

**16.05: Czech Republic (cancelled)**

Presentation by Mr Pospíšil, director of the Department of Social Services of the Ministry of Labour and Social Affairs, Czech Republic (cancelled)

**17.00 Conclusion** by Ruth Owen, FEANTSA and Sorcha Edwards, Housing Europe

a6.2 Day 2 (targeted at Flemish stakeholders)

## **Naar een kosteneffectief woonbeleid**

Zaal De Schelp (Vlaams Parlement)

Date: 21/06/2016

### **9.30: Verwelkoming**

Sien Winters (Onderzoeksleider Wonen, HIVA-KU Leuven)

### **9.40: Uitdagingen voor het Vlaamse woonbeleid**

Pol Van Damme (secretaris Vlaamse Woonraad)

### **10.10: Voorstelling project 'Naar een kosteneffectiever woonbeleid'**

Veerle Geurts (Coördinator Cel Onderzoek, Agentschap Wonen-Vlaanderen)

### **10.20: Voorstelling onderzoek en conceptueel afwegingskader door onderzoekers**

Katleen Van den Broeck (senior onderzoeker HIVA-KU Leuven) & Sien Winters (Onderzoeksleider, HIVA-KU Leuven)

### **11.10: Koffiepauze**

### **11.40: Reflecties over bruikbaarheid van het afwegingskader door beleidsmakers**

- Bernard Hubeau (UA – Voorzitter Vlaamse Woonraad)
- Benediekt Van Damme (afdelingshoofd afdeling Woonbeleid, Agentschap Wonen-Vlaanderen)

### **12.10: Reflecties over bruikbaarheid afwegingskader en kosteneffectief beleid door publiek**

### **12.30: Lunch break**

**13.30: Recente ontwikkelingen in nationaal woonbeleid in Europa**

Marja Elsinga (Hoogleraar Woonbeleid & Woningmarkt - Afdeling OTB - Research for the Built Environment, TU Delft)

**14.00: Maintaining an Efficient and Equitable Housing Market in Belgium**

Sanne Zwart (Economist/Policy Analyst, OESO)

**14.30: Panel discussie: woonactoren reflecteren over het afwegingskader en de toelichting bij het OESO rapport**

Freek Spinnewijn (FEANTSA), Filiep Loosveldt (UEPC), Bjorn Mallants (VVH), Hilde Reynvoet (Dienst Wonen, Stad Gent)

Moderator: Chris De Nijs

**16.00: Conclusie**

Lorin Parys (Voorzitter Commissie voor Wonen, Armoedebelief en Gelijke kansen van het Vlaams Parlement)

**16.15: Receptie**



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